SURGE OF SMALL LEASES PUSHES ABSORPTION POSITIVE

▲ 5.0%
Vacancy Rate

▲ 1.7M
Sq. Ft. Net Absorption

▶ 10.2M
Sq. Ft. Under Construction

▲ 5.9M
Sq. Ft. Leasing Activity

▶ $19.40
NNN / Class A Lease Rate Per Sq. Ft.

▲ $18.23
NNN / Lease Rate Per Sq. Ft.

Note: Arrows indicate change from previous quarter.

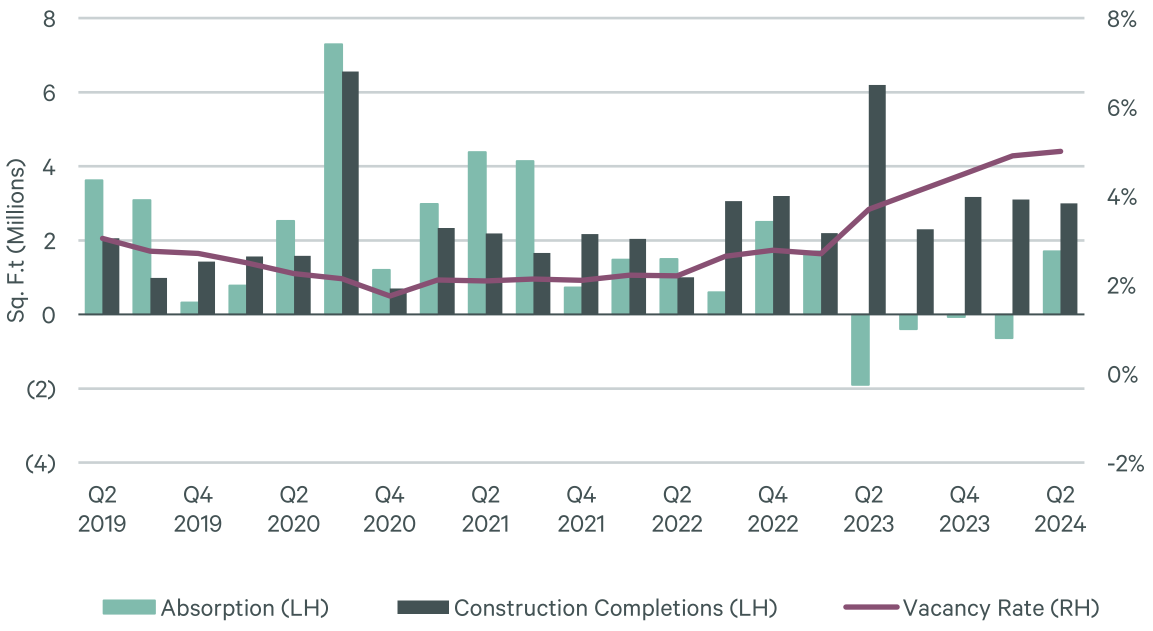
Market Overview

Demand in Q2 2024 recovered from the prior quarter's performance as a burst of small deals pushed leasing activity to 5.9 million sq. ft., a 16% quarterly increase. Activity was spurred predominantly by third-party-logistics (3PL) companies which accounted for 47% of the market's new leases, followed by food services companies which represented 23% of leasing. Retail/wholesale businesses, facing consumer challenges, accounted for just 20% of leasing.

Vacancy increased quarterly by 10 basis points (bps) to 5.0% due to the delivery of 2.0 million sq. ft. of unleased new product. This was the slowest increase in vacancy since Q1 2023. Another favorable development this quarter was that net absorption, at positive 1.7 million sq. ft., made this the first quarter to post an occupancy increase since Q1 2023. Increasing sublease availability tempered what was a largely positive performance in Q2. Sublease availability increased 1.8 million sq. ft. over the last twelve months to 5.8 million sq. ft., excluding additional "shadow-space," defined as spaces believed to be available but not formally being marketed for sublease.

Rent dynamics remained steady during the quarter with Class A average asking rents relatively unchanged at $19.40 per sq. ft. and Class B and C rents increasing 3% to $16.62 per sq. ft. due to

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



Source: CBRE Research, Q2 2024

sustained demand for small spaces. Large long-term deals, especially at new developments outside primary markets, continued to command concessions with increasing sublease options pushing the leverage toward tenants.

Demand

Leasing activity climbed back from a slow Q1 2024 despite lingering inflation hampering consumers and cost-containment exercises by businesses. The increase in leasing was largely due to a flurry of small deals as new leases of 200,000 sq. ft. and greater have remained relatively scarce. Leasing activity totaled 5.9 million sq. ft., 16% above last quarter and 14% above the quarterly average of the last two years.

As corporate occupiers remained cautious, leasing activity for deals above 200,000 sq. ft. remained sparse and no new leases over 400,000 sq. ft. materialized. Meanwhile, commitments between 50,000 and 100,000 sq. ft. pushed leasing activity to its highest total in five quarters. Leases between 50,000 and 100,000 sq. ft. totaled 1.0 million sq. ft. compared to 749,000 sq. ft in Q1 2024. Leasing between 100,000 and 200,000 sq. ft. totaled 1.3 million compared to 643,000 sq. ft. in the first quarter.

This quarter's leasing activity was also good news for developers. There was 1.6 million sq. ft. of space absorbed in buildings built after 2021 this quarter compared to only 550,000 sq. ft. in Q1 2024. The largest two leases in newly constructed buildings were DSV's 355,000 sq. ft. lease at 300 Salt Meadow Rd in Carteret and JW Fulfillment's 342,000 sq. ft. lease at 99 Callahan Blvd. Sayreville.

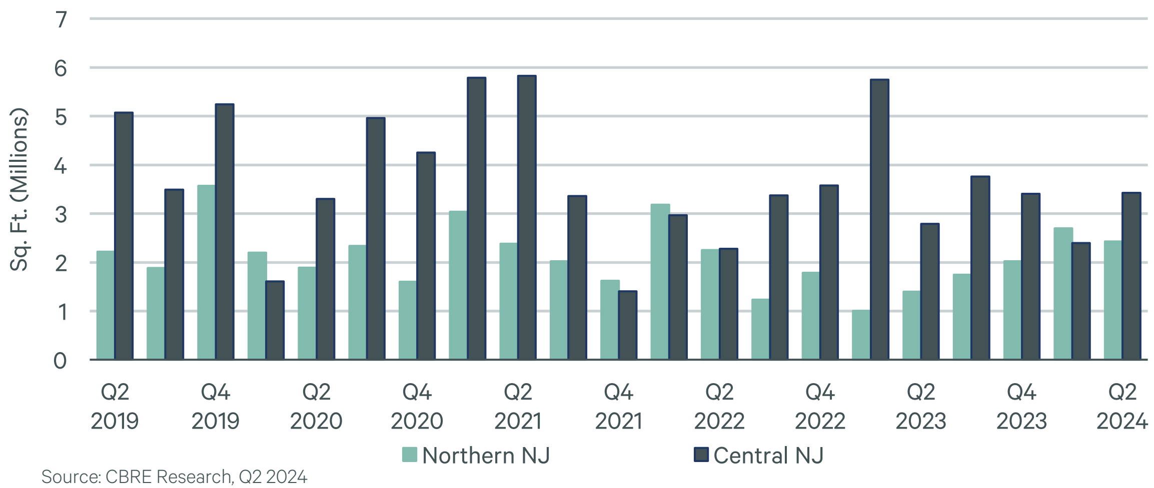
3PL/Warehousing/Transportation were the main propellants of the market, accounting for 47% of new leases of at least 50,000 sq. ft. followed by food services at 23%. Food services have been a growing market segment over the last year as leasing by retail/wholesalers has lagged prior quarters. Retail/wholesale accounted for just 20% of total leasing this quarter.

FIGURE 2: Notable Lease Transactions, Q2 2024

Size	Tenant	Address	City	Transaction Type
418,300	Adjco Warehouse & Logistics	113 Interstate Blvd.	South Brunswick	Renewal
355,100	DSV A/S	300 Salt Meadow Rd. Bldg. C	Carteret	New Lease
342,371	JW Fulfillment	99 Callahan Blvd. Bldg. 2	Sayrevile	New Lease
326,500	SupplyOne	100 Porete Ave.	North Arlington	New Lease
317,500	Gentek Building Products	11 Cragwood Rd.	Avenel	Renewal

Source: CBRE Research, Q2 2024

FIGURE 3: Historical Industrial Leasing Activity by Market



Source: CBRE Research, Q2 2024

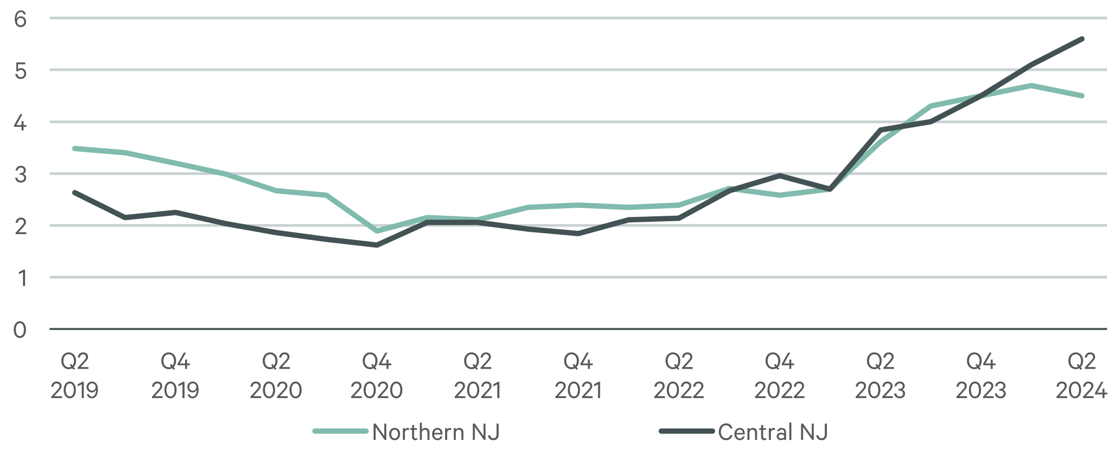
Supply

The combination of fewer additions of new and existing space and stronger demand led to an increase in vacancy of just 10 bps to 5.0%., the smallest vacancy increase since Q1 2023. Vacant construction completions brought 2.0 million sq. ft. of new inventory to the market, the lowest total since Q3 2023 and well below the peak of Q2 2023 when 5.0 million sq. ft. delivered vacant. Net absorption was 1.7 million sq. ft. this quarter, the first positive total since Q1 2023. This quarter's positive net absorption was achieved through strong demand for small and medium-sized spaces and few vacant spaces coming to market due to large renewals in recent quarters.

Despite this encouraging development in restrained vacancy growth, increasing sublease availability in the market cannot be ignored. Sublease availability reached 6.5 million sq. ft., the highest figure since Q3 2020. This represented an increase of 600,000 sq. ft. since last quarter and a twelve-month increase of 1.8 million sq. ft. , This number actually understates the amount of sublease space in the market due to a growing and significant amount of shadow inventory. Much of this sublease inventory, both formal and shadow space, are from wholesale/retail companies in large spaces.

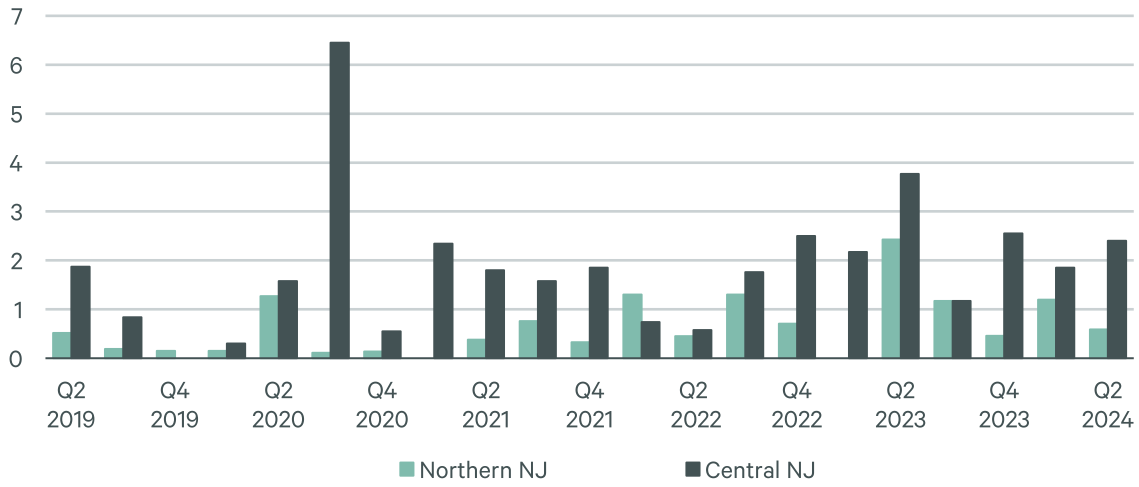
Construction starts decreased to 2.4 million sq. ft. after Q1's surge of 3.3 million sq. ft. with an average size of 200,000 sq. ft., which is in-line with current demand. Although the overall construction pipeline has declined from its peak, recent construction start totals represent a rebound from late 2022 to early 2023 when the quarterly average construction start total was 1.3 million sq. ft. Land sales, especially in the Turnpike Corridor, were minimal for the third straight quarter, suggesting a dearth of new starts next year. Overall, the pipeline under construction was 10.2 million sq. ft. in Q2, 2% below last quarter and 34% below the peak of Q1 2022.

FIGURE 4: Historical Vacancy Rate by Market (%)



Source: CBRE Research, Q2 2024

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



Source: CBRE Research, Q2 2024

Rent Trends

Rent remained mostly stable quarter-over-quarter with Class A asking rents unchanged at $19.40 per sq. ft. and Class B and C rents increasing 3.0% to $16.62 due to continued demand for smaller spaces. New development deals and large long-term commitments benefited from increased concessions through free rent, tenant improvement allowances and moderating escalations. These concessions remained limited to landlords with shorter hold strategies in secondary locations as opposed to well-capitalized long-term owners in prime locations. But increasing sublease availability will further challenge landlords' ability to hold rents and limit concessions until stronger demand returns to the market.

Economic Overview

Following a year of expectation defiant growth, which has kept interest rates high, it seems we will get a "soft landing" in 2024. Stimulus effects continue to fade and high interest rates are placing a drag on consumption, evidenced by rising delinquency rates and slowing credit growth. CBRE expects that GDP growth for 2024 will settle at the mid -1% range this year. Much of the recent job growth has been clustered in sectors that are immune to higher interest rates and receive at least some public funding, such as education, healthcare, and government.

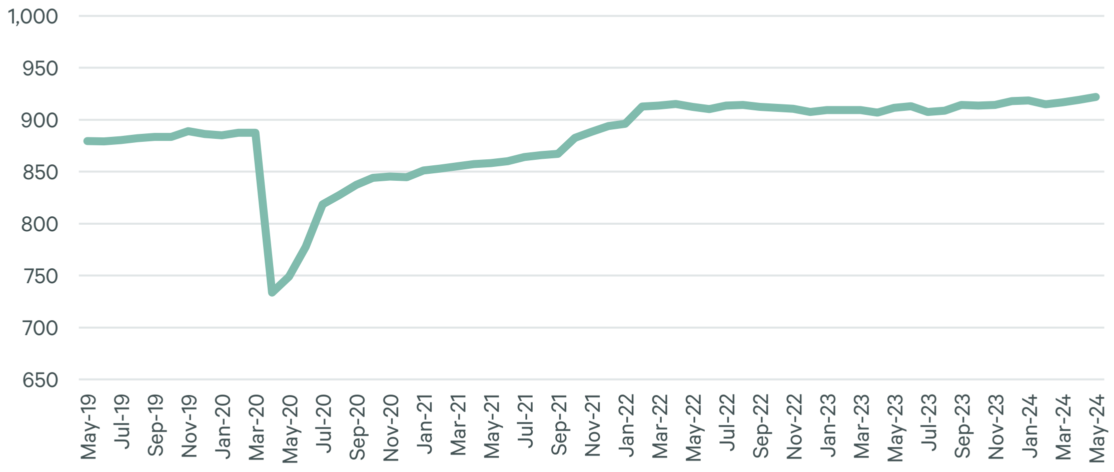
New Jersey's industrial employment saw a modest net increase in Q2 2024 as manufacturing shed 1,000 positions (-0.4%). Quarter-over-quarter the significantly larger trade, transportation, and utilities sector – which includes logistics and fulfillment center employment – added 7,000 jobs (+0.8%).

Altogether, New Jersey's industrial-using sector increased by 6,000 jobs since Q1 2024. Year-over-year, manufacturing employment is down 1,300 positions (-0.5%) and trade, transportation and utilities is up 10,000 positions (+1.2%).

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

Source: CBRE Research, Q2 2024

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



Source: BLS

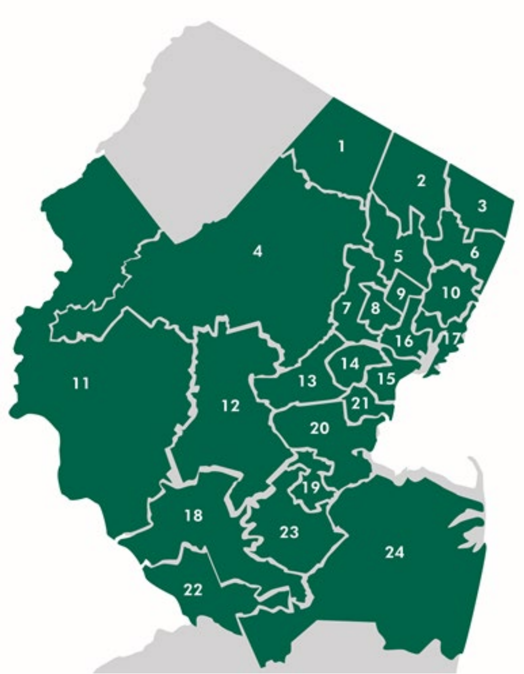
FIGURE 8: Submarket Statistics

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	32.3	4.5	23.00	18.16	72.0	27.2	187.5
Fairfield Market	18.7	3.8	0.0	15.92	118.3	-106.9	0.0
Hudson Waterfront	66.3	3.8	26.46	22.91	116.5	-36.1	1,671.0
Meadowlands	94.5	6.4	25.76	21.19	1,066.8	1,068.3	359.2
Morris Region	41.8	4.5	16.15	15.46	88.3	211.5	1,791.3
Newark	53.8	4.0	28.77	27.12	50.0	-386.6	211.4
North East Bergen	8.1	2.4	0.0	15.83	40.0	31.3	0.0
North West Bergen	19.3	4.9	21.82	19.61	74.6	37.6	113.0
Rt 23 North	0.6	1.3	0.0	-	0.0	-8.0	0.0
Rt 280 Corridor	4.4	3.3	0.0	19.50	0.0	0	0.0
Rt 46/23/2 Interchange	57.9	2.7	22.00	16.95	577.7	388.8	402.3
Suburban Essex	6.8	5.4	0	-	226.2	-5.6	0.0
Northern NJ Total	**404.5**	**4.5**	**24.08**	**19.91**	**2.430.4**	**1,221.5**	**4,735.7**
Brunswicks/Exit 9	29.3	7.9	17.93	17.20	274.9	-42.2	146.6
Carteret/Avenel	30.8	11.9	19.69	19.82	514.6	-383.8	488.4
Central Union	24.5	2.3	19.14	17.73	66.3	29.8	109.2
Exit 8A	80.1	3.3	16.23	15.94	559.1	-235.1	407.3
Hunterdon/Warren	14.9	5.0	11.95	11.54	23.0	67.1	0.0
Linden/Elizabeth	45.6	7.7	24.35	22.76	640.2	37.5	400.0
Monmouth	27.5	9.7	15.88	14.98	103.6	60.0	1869.8
Princeton	16.1	5.3	14.25	14.22	180.5	98.6	0.0
Route 287/Exit 10	111.4	4.5	19.18	18.15	910.9	974.2	964.6
Route 78 East	9.7	4.21	0.0	15.55	0	-178.2	0.0
Somerset	40.8	4.0	17.69	16.91	52.3	146.7	691.5
Trenton/295	33.6	5.3	15.09	14.64	102.4	-92.8	378.0
Central NJ Total	**464.3**	**5.6**	**17.90**	**17.32**	**3,427.8**	**481.8**	**5,455.4**
NJ Total	**868.8**	**5.0**	**19.40**	**18.23**	**5,858.3**	**1.703.3**	**10,191.1**

Source: CBRE Research, Q2 2024,
- 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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