

NEW JERSEY MARKET HIGHLIGHTS

NEW JERSEY INDUSTRIAL MARKET

While New Jersey's industrial market has strong fundamentals, the down economy has taken its toll. Many industrial development projects have been put on hold until the market works through absorption of existing product. Current available inventory in the North/Central New Jersey market is running just over 66 million square feet. This is an increase of 24 percent since this time last year, when 53 million square feet of space was available.

Total inventory for the North/Central New Jersey industrial market as of the second quarter 2009 amounted to 818.23 million square feet across 15,334 buildings, according to CoStar. This includes 3,028 owner-occupied buildings accounting for 201.07 million square feet of space.

The leasing market has seen a slowdown in the last 12 months, consistent with most of the country. The decline in retail sales (which drive much of the inventory along the New Jersey Turnpike) has reduced the need for warehouse capacity. Big-box activity (particularly at Exit 8A) has been very limited, and the deals that are closing are at rents indicative of the late 1990s. The average quoted rental rate for industrial space in second quarter 2009 was \$6.04 per square foot, down 1.6 percent from the prior quarter. The credit turmoil has brought tenant indecisiveness along with it. As leases expire, many tenants are extending their leases for short terms until the economy and their confidence both pick up.

In first quarter 2009, 37 industrial sales transactions closed. These transactions totaled 2.04 million square feet with the average sale price of \$69.42 per square foot. At the same time in 2008, 65 transactions had closed with an average price tag of \$75.20 per square foot. The sales market for users has flattened somewhat from the irrational exuberance of just 2 years ago when many tenants sought to purchase their own warehouse facility and financing was flowing from the water tap. Many banks are flush with cash and are still willing to lend but now have much tighter underwriting standards.

In the investment sales market, we are seeing an uptick in sale-leasebacks. With the credit markets virtually frozen, this financing strategy allows companies to unlock equity in their buildings through the monetization of their real estate. Cash proceeds are being used to pay off credit lines and/or retire existing debt, acquire a competitor, purchase another piece of real estate or buy new equipment. This off-balance sheet method of financing works particularly well with the industrial sector since investors can purchase true net leases with minimal landlord responsibilities. Sellers can receive 100 percent financing (versus 60 to 70 percent financing with a bank) and construct a lease that is in sync with their long-term business plan. Typical lease periods are 15 to 20 years.

Future growth areas in New Jersey's industrial market include further redevelopment of approximately 20 million square feet of brownfield sites and continued growth of the ports — including Jersey City, Newark, Elizabeth, Carteret and Woodbridge — over next 10 years. Ongoing legislation to increase the tolls on the New Jersey Turnpike will likely drive certain tenants closer to industrial buildings near the ports and benefit owners in these areas. This growth trajectory, fueled by the completion of the Panama Canal dredging in 2014, is due to increase cargo shipments more than 30 percent.

— *Doug Richter, managing director with the Iselin, New Jersey, office of Sperry Van Ness*