

2Q23

# Northern New Jersey Industrial Market Overview



**NEWMARK**



# Market Observations

## Economy

- While the region’s labor market remains on relatively solid footing and the annual job growth rate continues to exceed the national average, cracks are beginning to show amid persistently high inflation and increasing interest rates.
- Unemployment has remained steady, with New Jersey trending below the national average for much of the last two years.
- The education and health sector led all industries in regional annual job growth, marking two straight years with the largest growth by industry. Industrial-using industries all saw annual job gains during the last 12 months.

## Major Transactions

- Christian Dior Perfumes signed a 12-year lease at 258 Prospect Plains Rd. in Cranbury. The 886,826 square-foot deal was the largest transaction during the second quarter of 2023.
- Invesco Real Estate purchased the West Essex Logistics Center at 8 Peach Tree Hill Rd. in Livingston from USAA Real Estate for \$98.5 million during the second quarter of 2023. The 293,887-square-foot property is in the Route 280/Suburban Essex submarket.
- Coda Logistics increased its footprint in Northern New Jersey, preleasing 321,765 square-feet at 1501 W. Edgar Rd. The Class A property is set to deliver in the third quarter of 2023.

## Leasing Market Fundamentals

- Absorption in the second quarter of 2023 totaled 1.7 msf, bringing the year-to-date total to 2.4 msf.
- The construction pipeline remains robust, trending upward to 12.8 msf in the second quarter of 2023
- Vacancy and rents both increased year over year. Vacancy grew to 3.1% as numerous large spaces were added to the market. Higher-priced space delivered to the market and still-robust demand drove strong 2023 year-to-date rent growth of 9.5%.

## Outlook

- Uncertainty reigns in the macroeconomic outlook. Occupiers and investors alike will approach deals with greater caution as a result, which will impact leasing and investment activity.
- Market vacancy will likely increase further as new construction delivers throughout the remainder of 2023.
- The construction pipeline will remain strong even with growing community and legislative antidevelopment pushback. Class A space will still be at a premium for tenants as new properties are delivered throughout 2023.

1. Economy
2. Leasing Market Fundamentals



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# Economy

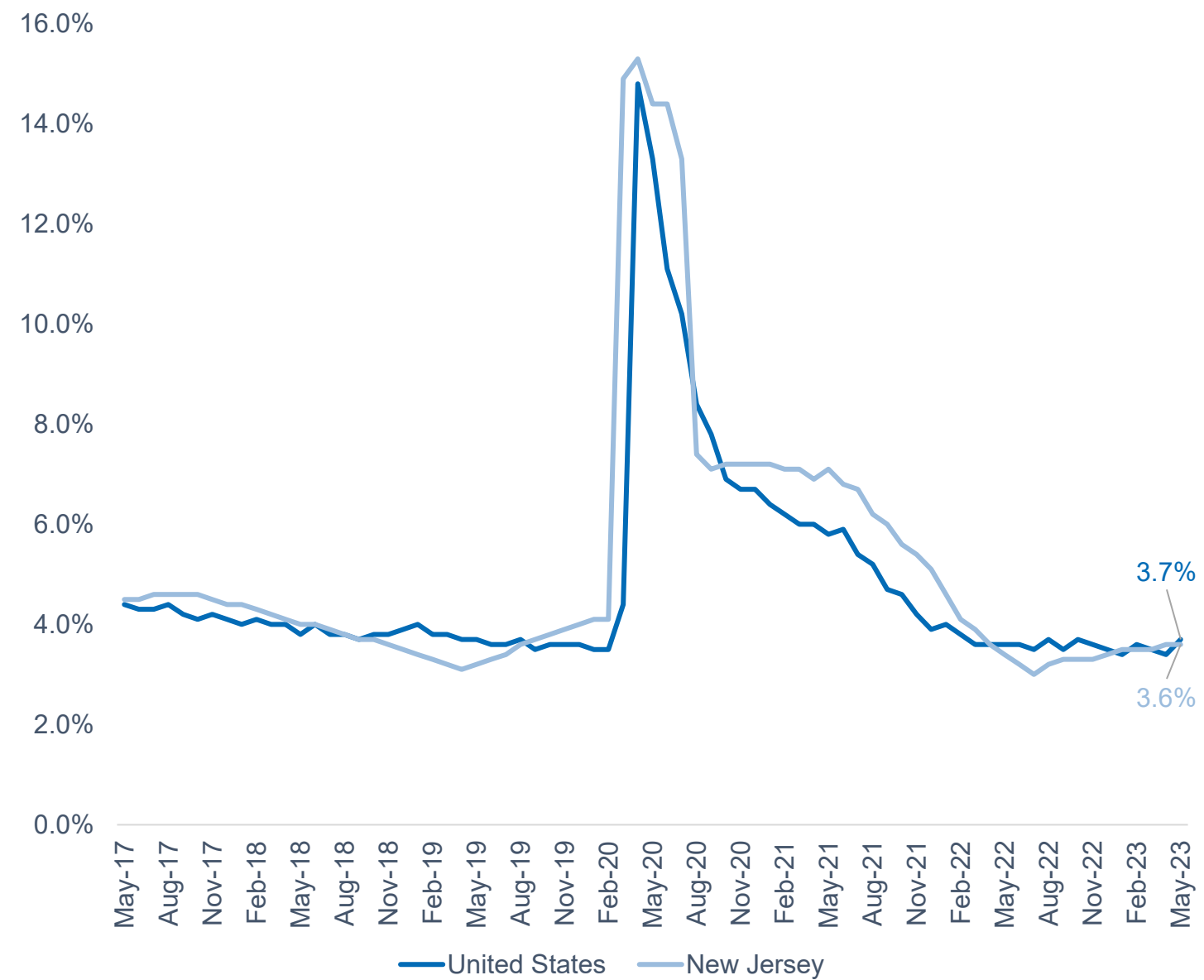




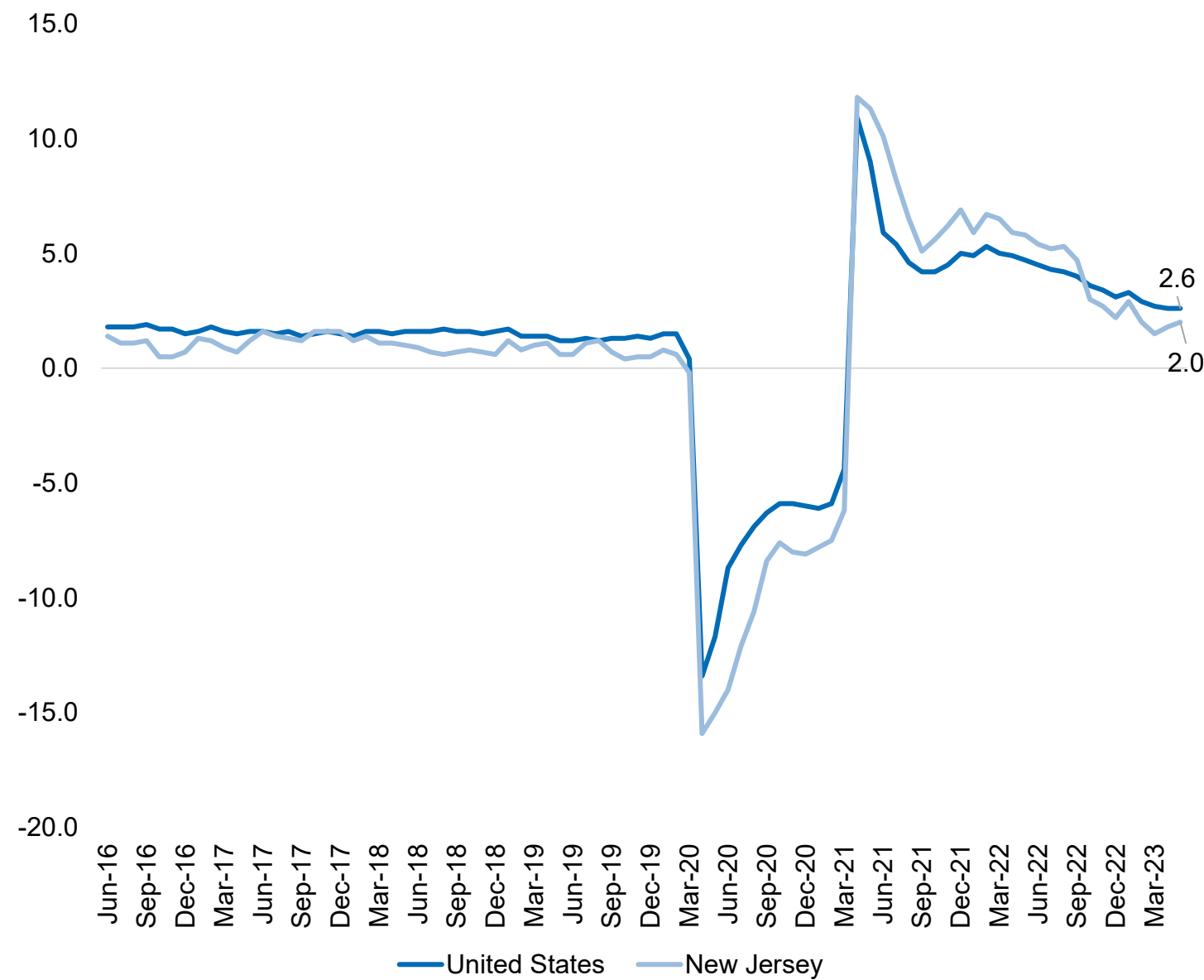
# Metro Employment Trends Signal a Slowing Economy

While the region’s labor market remains on relatively solid footing, cracks are beginning to show amid persistently high inflation and increasing interest rates. Unemployment has remained steady, and New Jersey remains slightly below the national average.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change



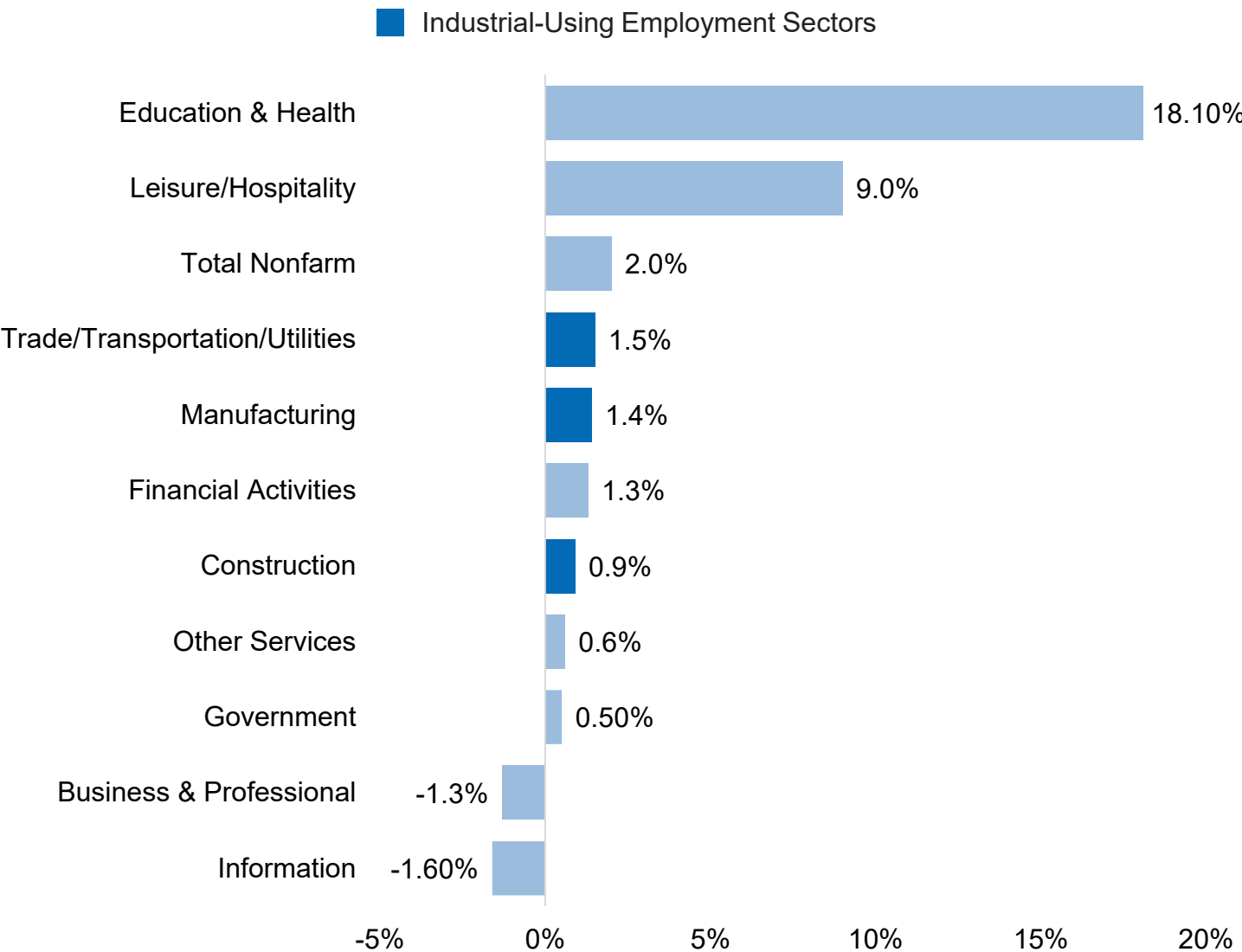
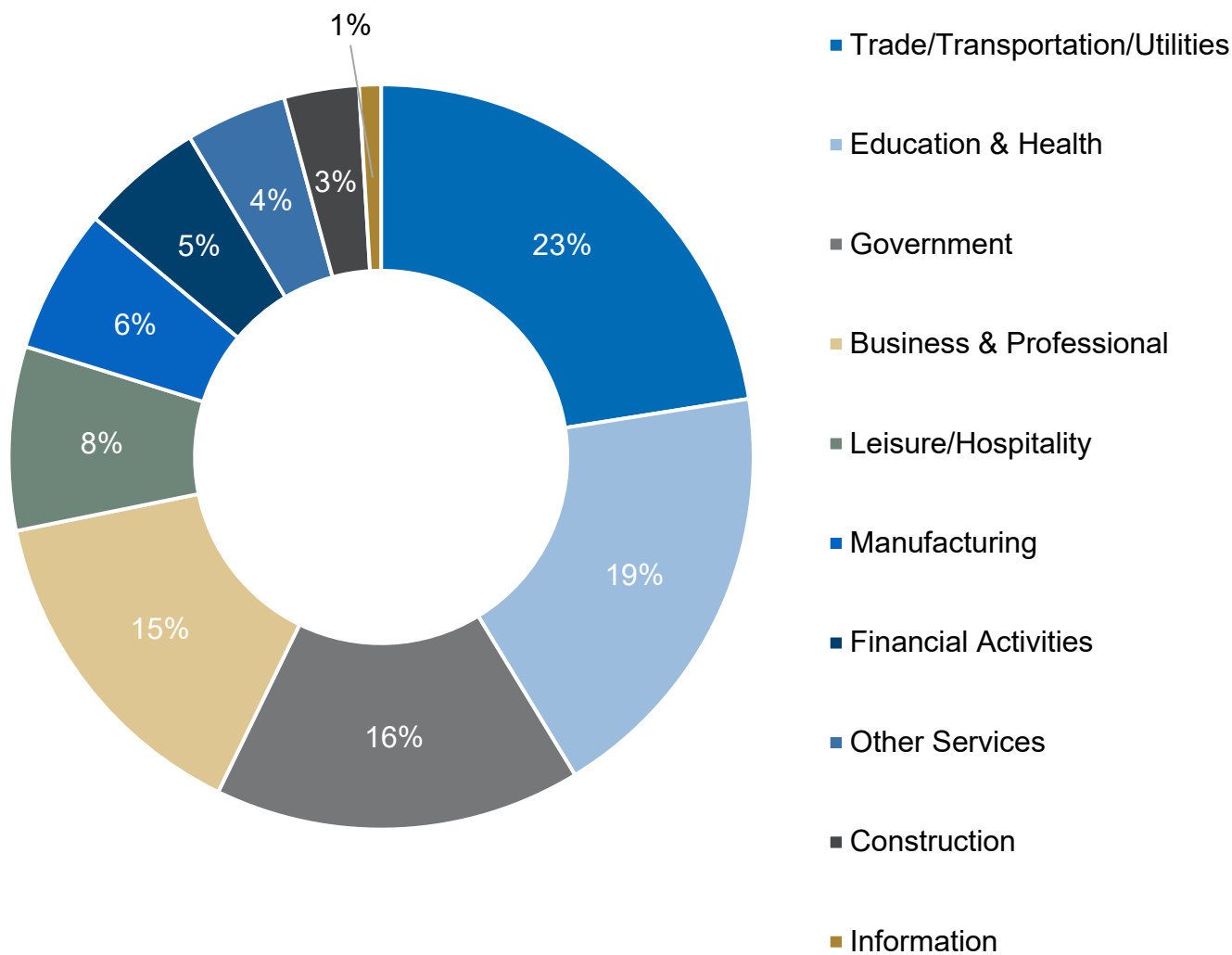
Source: U.S. Bureau of Labor Statistics, New Jersey

# Job Growth Driven in Large Part by Services Still Making up for Pandemic Losses

The education and health sector led all industries in regional annual job growth, marking two straight years with the largest growth by industry. Industrial-using industries all saw annual job gains during the last 12 months.

Employment by Industry, May 2023

Employment Growth by Industry, 12-Month % Change, May 2023

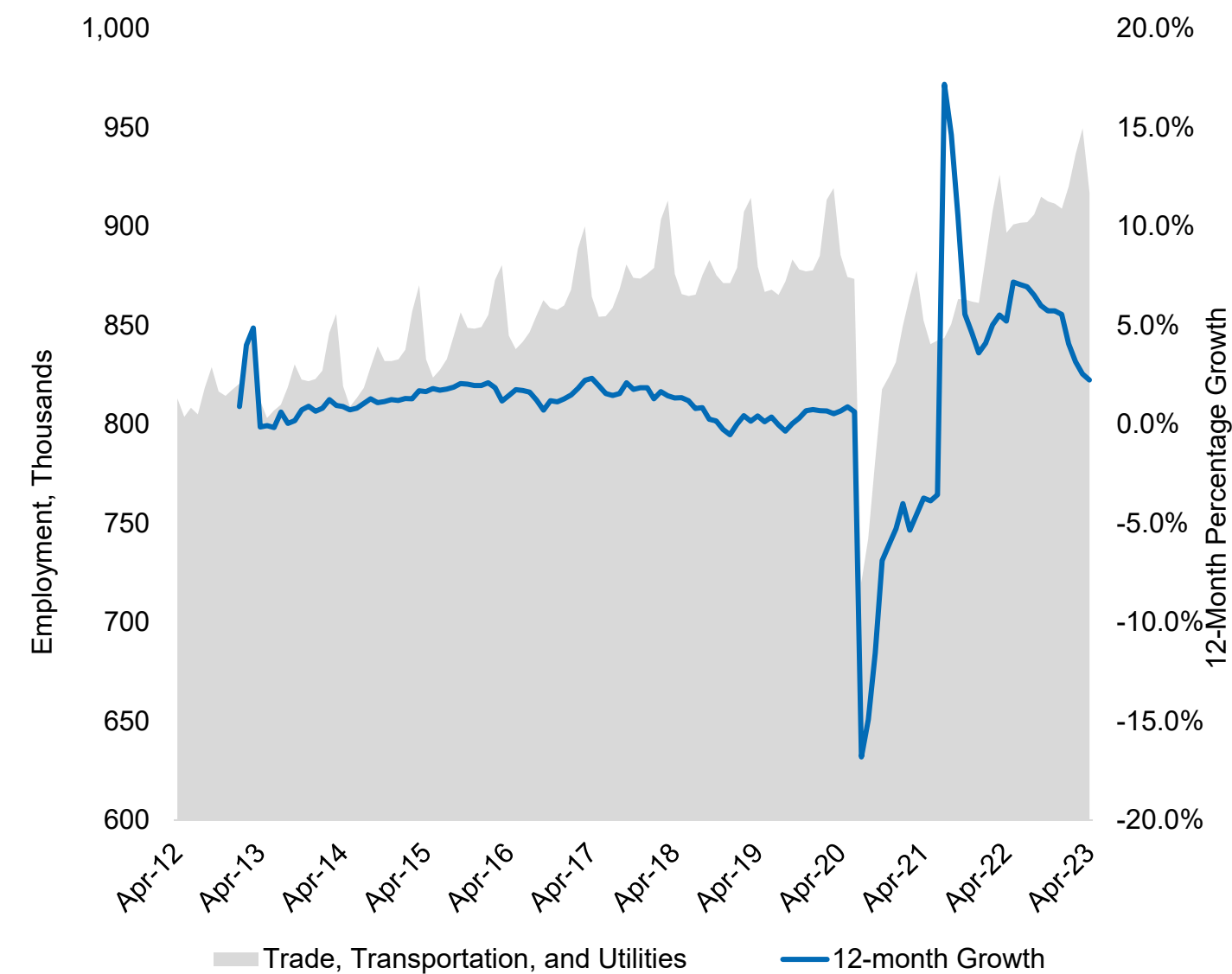


Source: U.S. Bureau of Labor Statistics, New Jersey

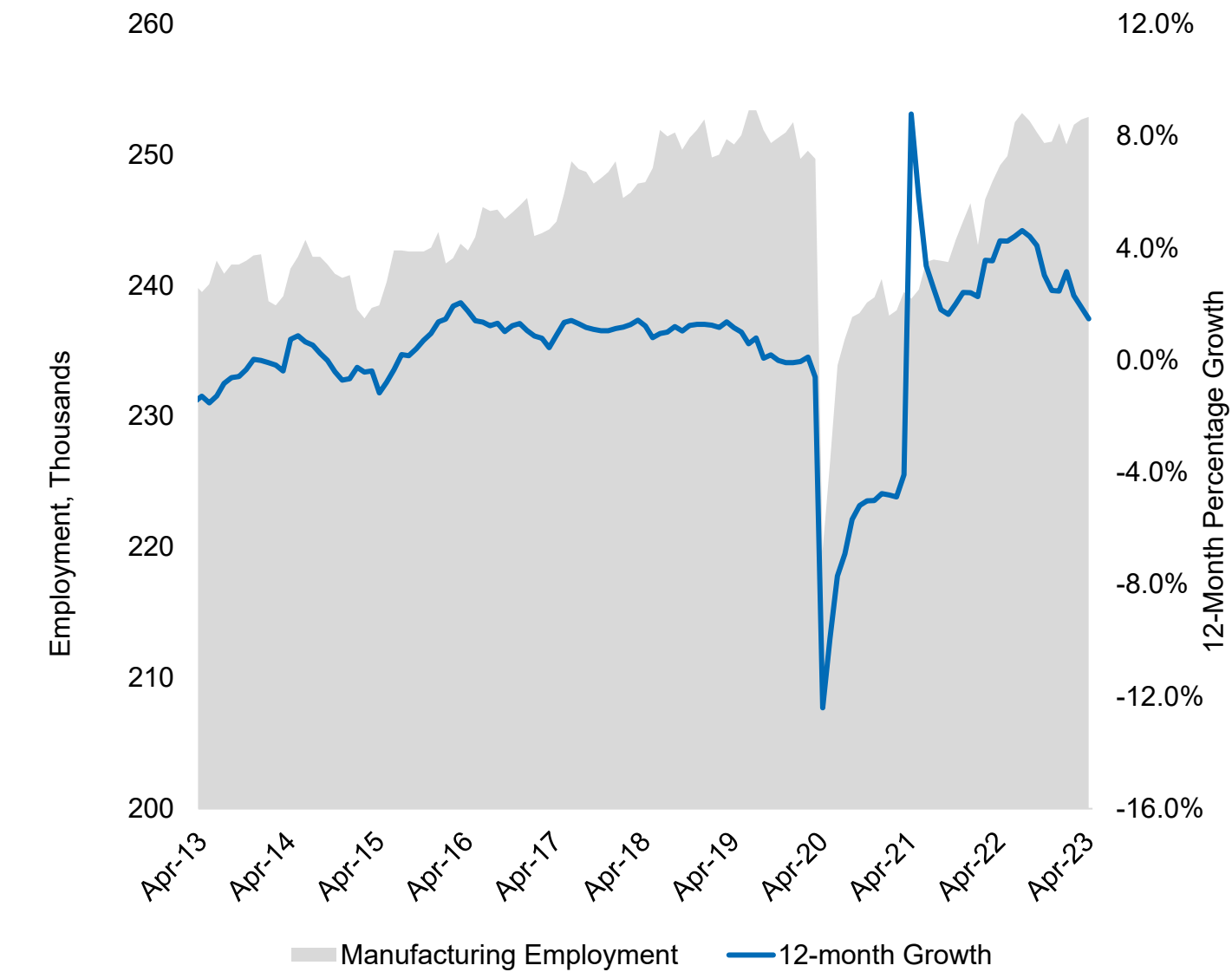
# Industrial Employment Strong but Not Immune to Softening Conditions

Trade/transportation/utilities and manufacturing firms are reacting to the economic climate and a shift in consumer demand by adjusting labor needs; however, competition for labor is still a challenge for many occupiers in the market.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, New Jersey



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# Leasing Market Fundamentals

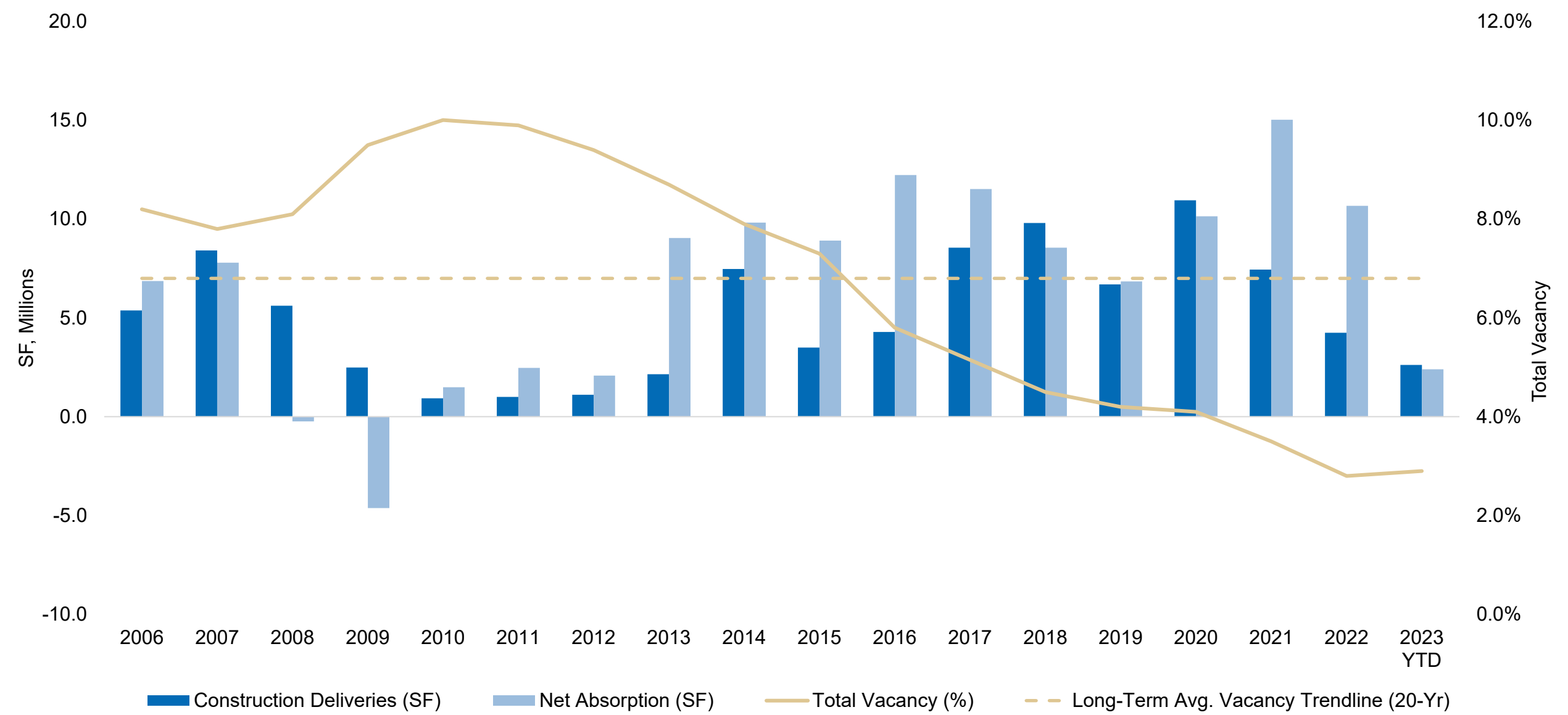




# Vacancy Rises as Construction Deliveries Outpace Net Absorption

The vacancy rate increased to 3.1% in the second quarter of 2023 from 2.8% in the fourth quarter of 2022. The market is recalibrating with vacancy expected to slightly rise over the next few quarters as construction deliveries begin to outpace net absorption, reversing the trend of the last two years.

Historical Construction Deliveries, Net Absorption, and Vacancy

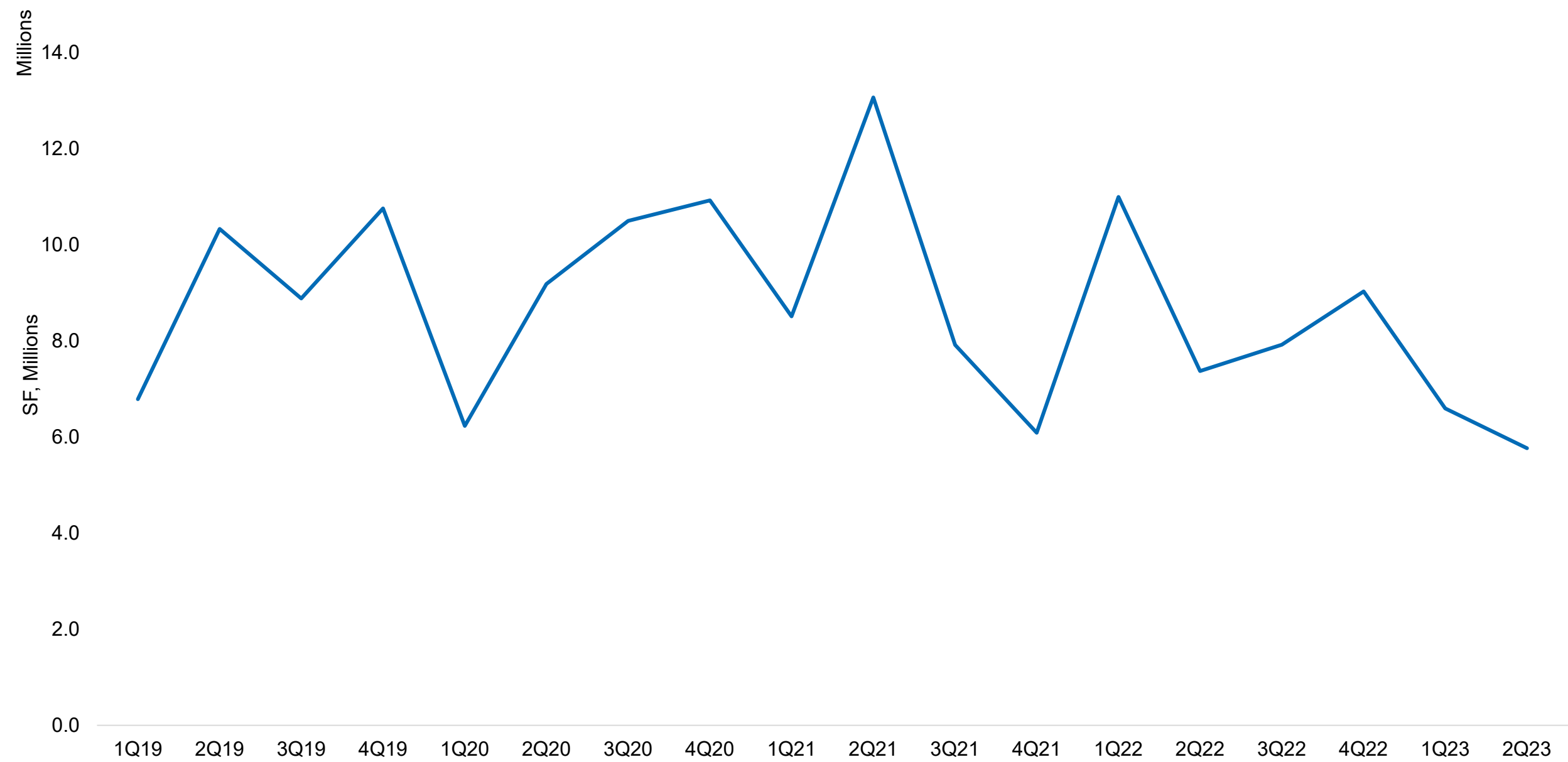


Source: Newmark Research

# Industrial Leasing Activity Decelerates

In the second quarter of 2023, demand for industrial space decelerated while still registering as healthy. Among the 5.7 msf of leasing volume during the second quarter of 2023 were three leases for warehouses greater than 300,000 square feet across Northern New Jersey.

Total Leasing Activity (SF)



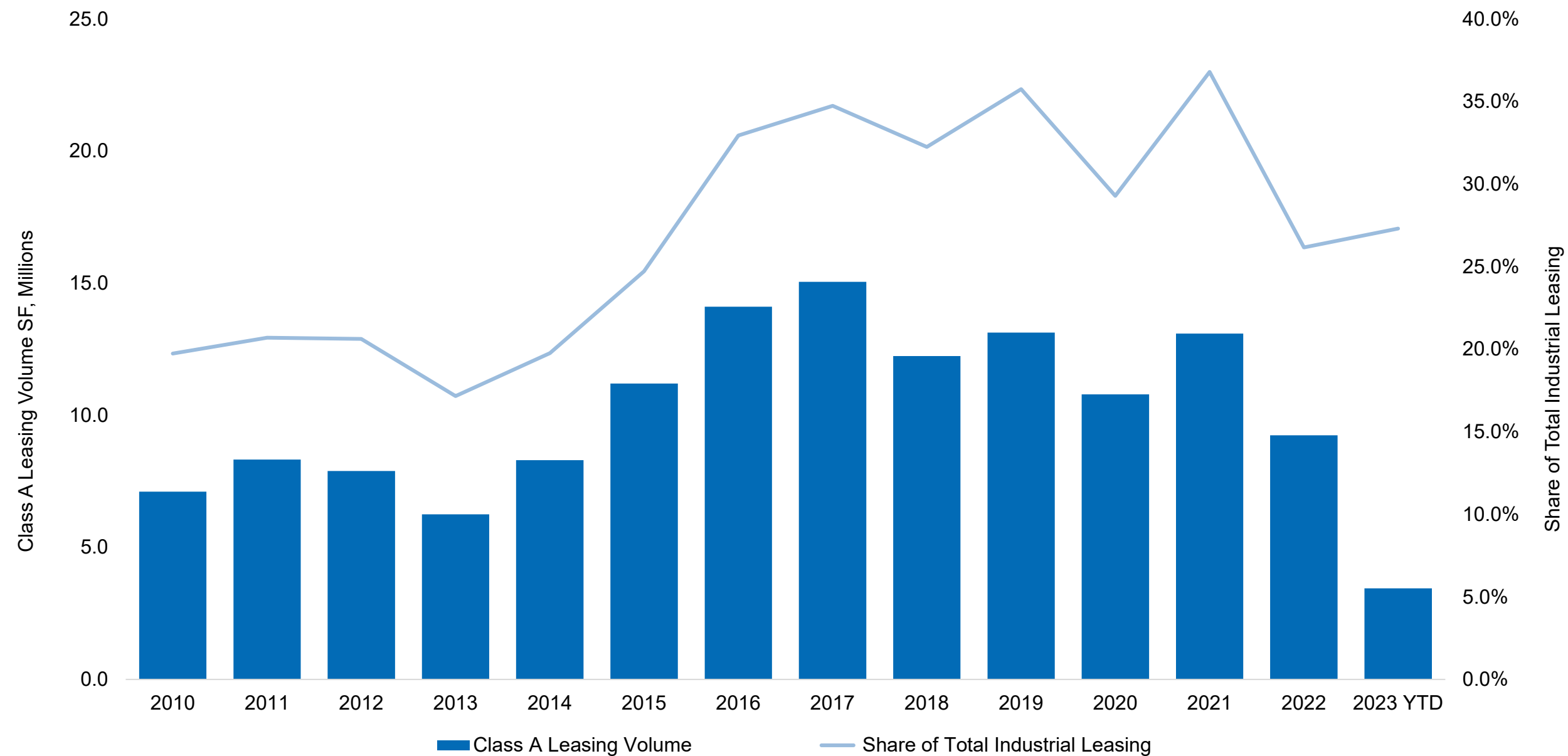
Source: Newmark Research, CoStar



# Class A Warehouse Leasing Above Long-Term Average

Class A warehouse leasing represented 27.3% of overall activity in 2023, down from a high of 36.8% in 2021. With a healthy construction pipeline of 12.8 msf, it's expected that Class A warehouse leasing will continue to represent a significant portion of leasing activity over the next few quarters.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

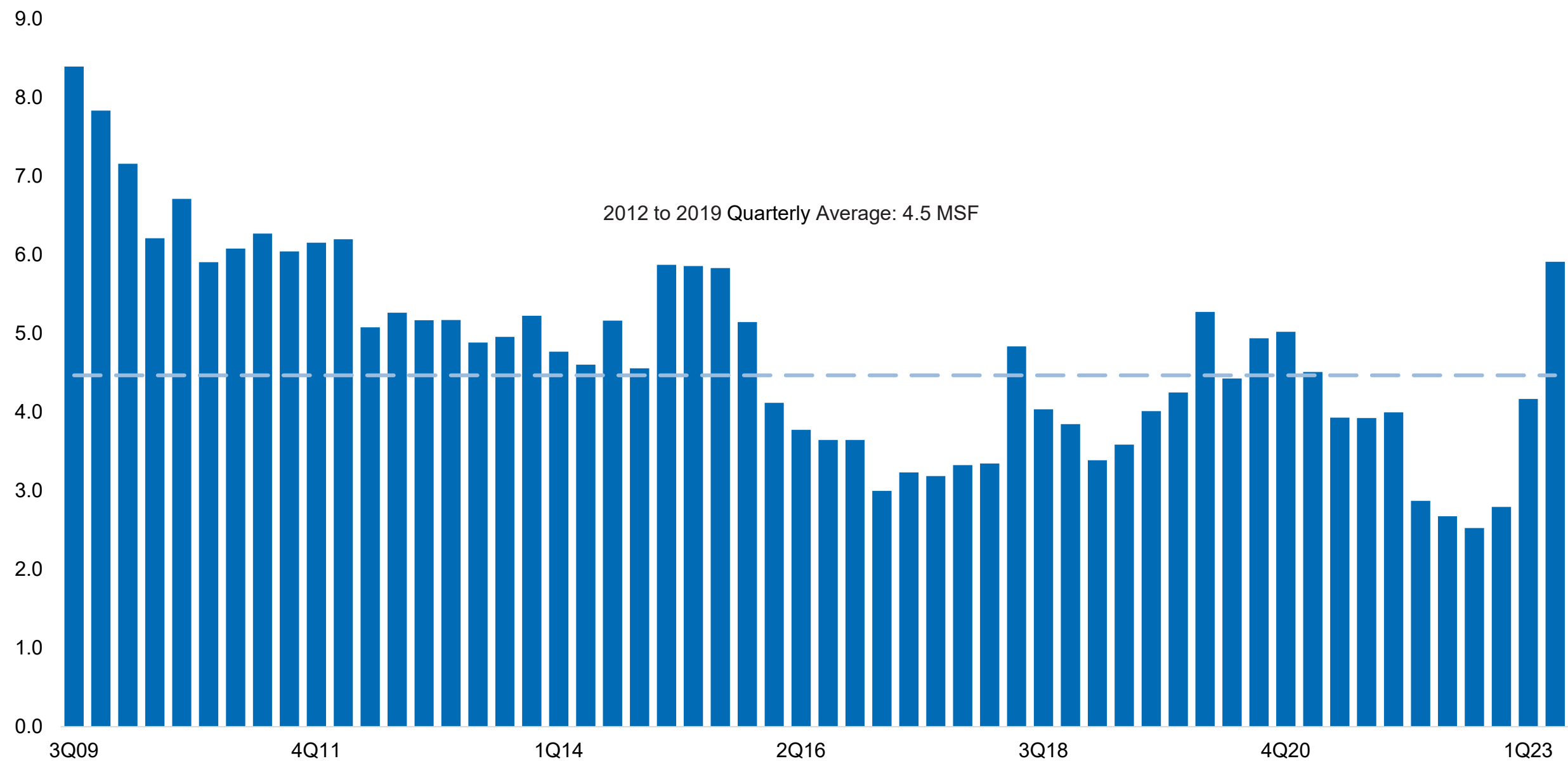


Source: Newmark Research, CoStar

# Industrial Sublease Availability Spikes in 2023

Sublease availability in the second quarter of 2023 exceeded the volume charted during the height of the pandemic and significantly above the long-term average. The rate at which subleases were added to the market has accelerated during the first two quarters of 2023. Rising interest rates, an inflationary environment and declining consumer demand are driving some firms to control costs via supply chain optimization and consolidation, which includes putting excess or underutilized space up for sublease.

Available Industrial Sublease Volume (msf)



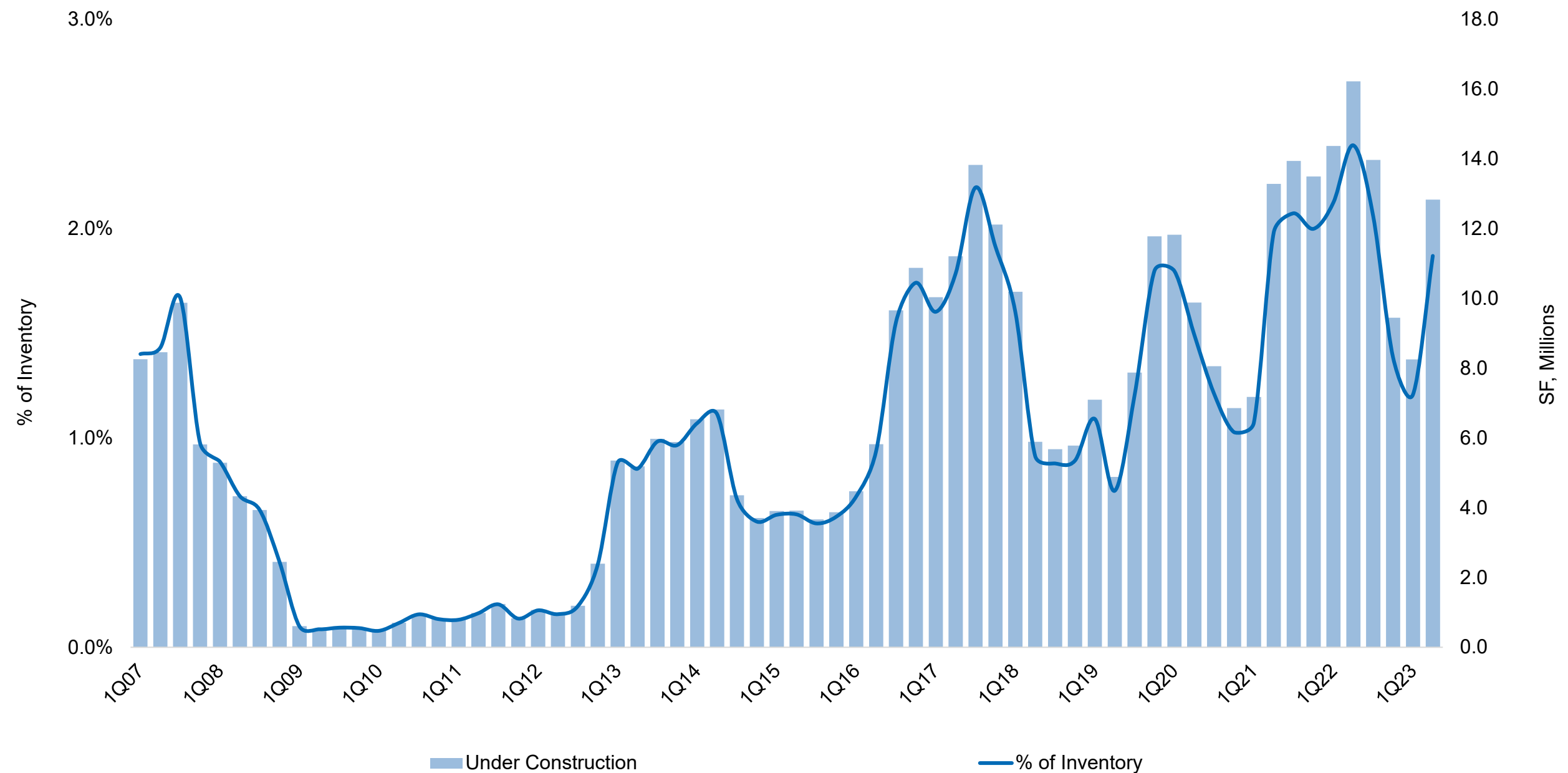
Source: Newmark Research, CoStar



# Industrial Supply Pipeline Increases

The construction pipeline trended upward during the second quarter of 2023 after reaching a historic high of 16.2 msf in the second quarter of 2022. Even with increasing local municipality opposition and pending legislation in the New Jersey legislature, the construction pipeline remains robust.

Industrial Under Construction and % of Inventory

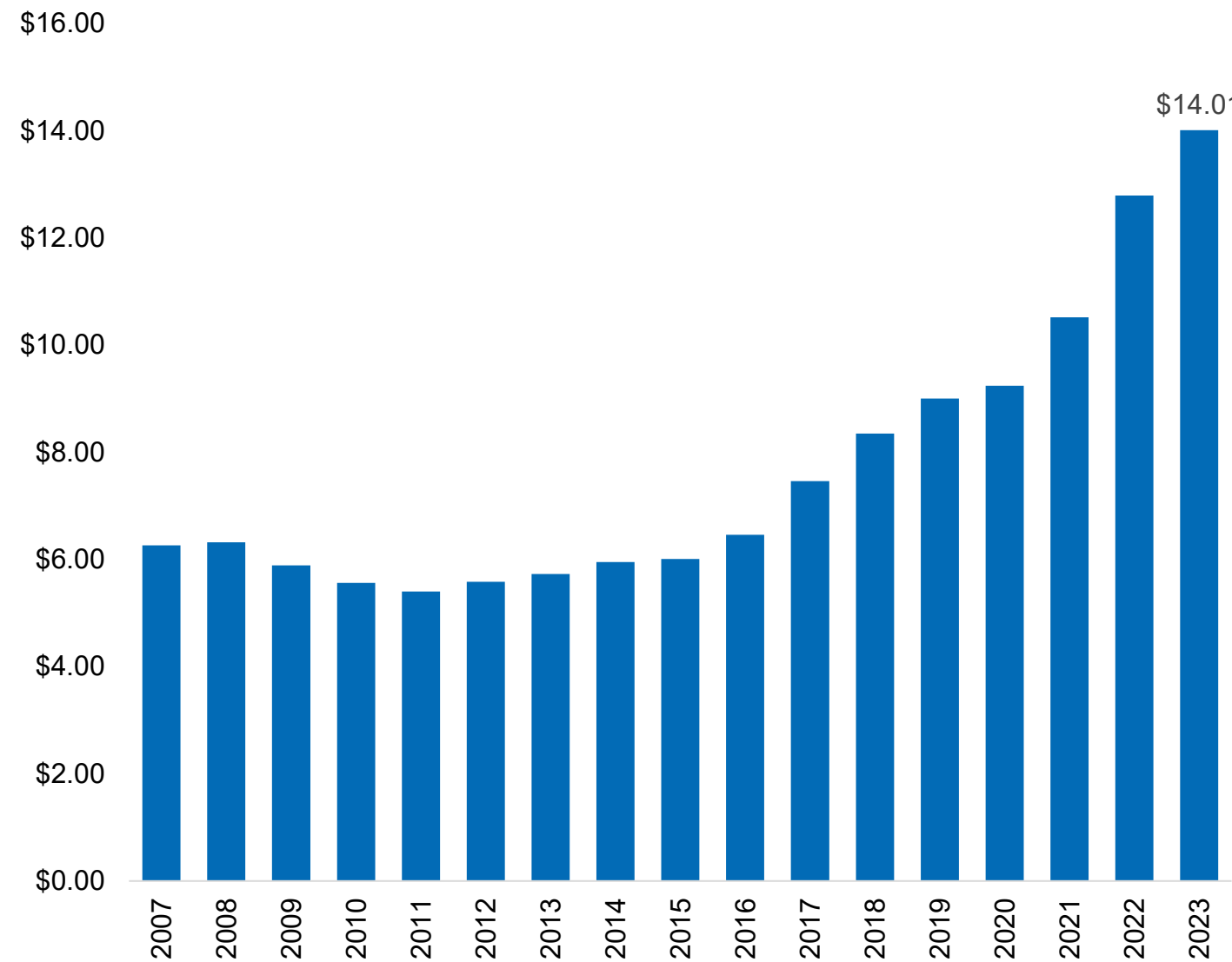


Source: Newmark Research, CoStar

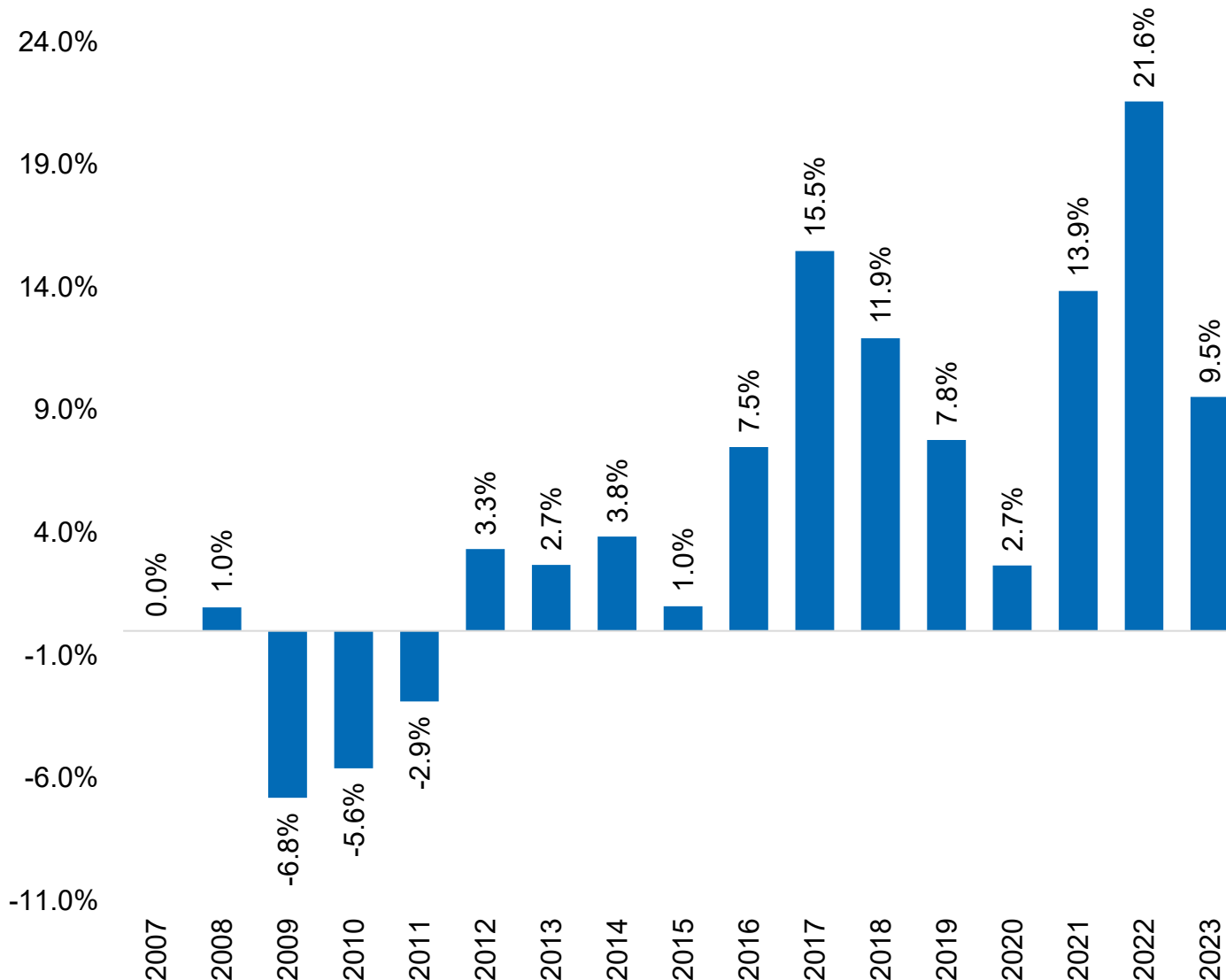
# Industrial Asking Rent Growth Continues into 2023

Industrial average asking rents grew by 9.5% over 2022 measures. Rent growth is expected to increase throughout the remainder of 2023 as a wave of construction delivers. Higher-priced quality space coming online in larger quantities will lead to the increases seen in the upcoming quarters.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar



# Notable 2Q23 Lease Transactions

Several macroeconomic factors led to a lag in leasing activity during the second quarter of 2023. However, New Jersey’s industrial market remains strong as the flight to quality continues, with recently constructed properties being of interest to opportunistic tenants.

Select Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
Christian Dior Perfumes LLC <i>Christian Dior Perfumes signed a twelve-year lease at 258 Prospect Plains Road, with an expected commencement date of January 1<sup>st</sup>, 2024. The 886,826 square-foot deal was the largest during the second quarter of 2023.</i>	258 Prospect Plains Road	Exit 8A	Direct New	886,826
FreshRealm <i>FreshRealm signed a four-year sublease from Blue Apron for 495,212 square feet at 901 W Linden.</i>	901 W Linden Avenue	Linden/Elizabeth	Sublease	495,212
Coda Logistics <i>Coda preleased the property which is set to deliver in August 2023.</i>	1501 W Edgar Road	Linden/Elizabeth	Direct New	321,765
De Well Group <i>Signed a ten-year lease.</i>	244 Belmont Drive	I-287 Corridor	Direct New	198,772
Logistics Plus <i>Five-year sublease.</i>	150 Milford Road	Exit 8A	Sublease	175,000

Source: Newmark Research

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