

NORTHERN & CENTRAL NEW JERSEY

LEASING MARKET REPORT



Market Players Enter 2012 with a Great Deal of Anticipation

Cautious optimism is the mood among New Jersey office market players as we head into 2012. Though market indicators have not changed greatly from 3Q11 to the current quarter, general market activity seems to be picking up incrementally. Still, as far as actual leasing, the market seems to be dawdling. Statistically, the office market is not experiencing much absorption or new business, but conversely, more tenants are moving from point A to point B to shrink, grow or upgrade space. Some of the completed and pending large deals are tenants downsizing, resulting in negative net absorption. This creates more opportunity for smaller and mid-sized companies to take advantage of building availabilities where landlords want to re-fill the space quickly. However, the “bread and butter” leases which help absorb some of these larger pockets have been very sparse.

As of 4Q11, 20.3% of office inventory remains available, compared to 20.1% last quarter and 20.0% a year ago. The amount of sublease space continues to decrease and now represents just 13.0% of available space. While the amount of available sublease space is at its lowest level in three years, its proportion to overall available space is at its lowest level in 10 years. However, as some of the larger tenants consolidate, more opportunities for sublet space are expected to come available.

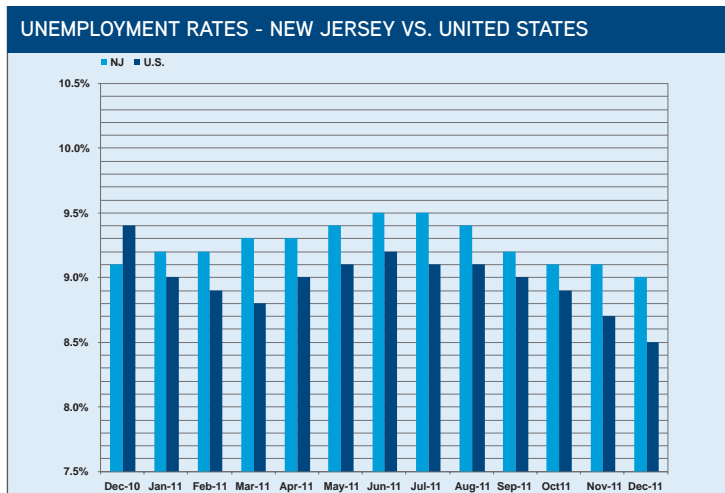
During the past quarter, there has not been much change in rental rates and concession packages available to qualified tenants, with the exception of landlords with little or no debt moving asking prices even lower. As of 4Q11, the asking rent for Northern and Central New Jersey averages \$22.11/sf gross, plus tenant electric, compared to \$22.29/sf the previous quarter and \$22.30/sf a year ago. In some cases, owners are looking to sign only short term deals of five years or less with the thought process

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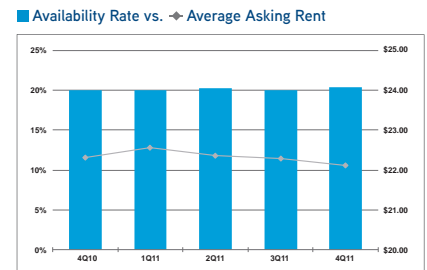
MARKET INDICATORS

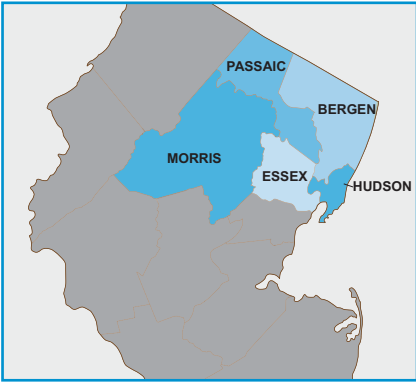
	3Q11	4Q11
AVAILABILITY	↓	↑
NET ABSORPTION	↑	↓
CONSTRUCTION	↑	↓
RENTAL RATE	↓	↓



Tenants are willing to commit to longer term deals and are willing to relocate if the situation seems fit.

NEW JERSEY OVERALL





Availability Rate:
20.7%

Vacancy Rate:
15.8%

Average Asking Rent
\$22.27 + Tenant Electric

NORTHERN NEW JERSEY

The rate of available space in Northern New Jersey continues to climb. As of 4Q11, 20.7 percent of office inventory is listed as available for lease, compared to 20.3% the previous quarter and 18.8% a year ago. While the total number of deals and the volume of leasing activity improved as compared to the previous two quarters, the amount of space put back on the market increased substantially, stagnating market conditions. The largest block put on the market during the quarter was the Center of Morris County in Parsippany, where State Farm is vacating 400,000 square feet and moving about 500 jobs to New York and Pennsylvania.

Asking rents were lower for the quarter, averaging \$22.27 per square foot gross, plus tenant electric, compared to \$22.40 the previous quarter and \$23.00 a year ago. While the average for 4Q11 is the lowest reported since 1Q99, it should be noted that rents for several class “A” buildings are “withheld” by landlords, which is a major factor in lowering the overall average for the region. Major submarkets with the highest average asking rents include Short Hills/Millburn, the Hudson Waterfront and Teaneck/Ridgefield Park, all averaging well over \$30 per square foot.

Realogy decided to remain in New Jersey and signed the largest lease during 4Q11. They are relocating from Parsippany to a 270,000 square

foot office building being constructed at 175 Park Avenue in Madison. The property is a redevelopment by Hampshire Companies. PSE&G also leased space during the quarter, signing for 84,564 square feet at 440 Eagle Rock Avenue in Roseland. In Newark, Prudential is in the market for 600,000 square feet and considering new development, most recently a project on Market and Mulberry Streets. Tax credits totaling \$250.8 million via the Urban Transit Hub incentive program has been approved for new development. The spaces currently occupied by the insurance giant at Gateway Center, totaling 922,000 square feet, would be vacated upon completion of a new building. Prudential also recently leased 65,000 square feet at 7 Giralda Farms in Madison.

NORTHERN NEW JERSEY

County	Total Availability	Total Vacancy	Average Asking Rent
Bergen	19.4%	15.7%	\$24.34
Essex	20.2%	16.6%	\$22.15
Hudson	13.4%	9.4%	\$23.13
Morris	27.6%	19.9%	\$19.96
Passaic	22.3%	18.7%	\$22.11

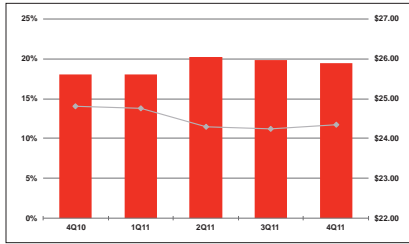


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NORTHERN NEW JERSEY

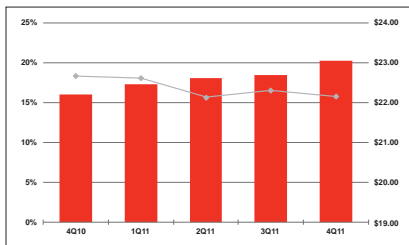
BERGEN COUNTY

■ Availability Rate vs. ◆ Average Asking Rent



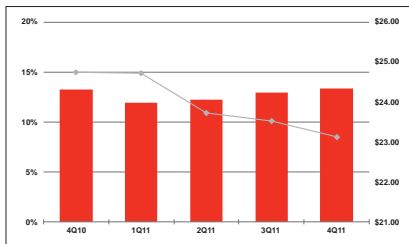
ESSEX COUNTY

■ Availability Rate vs. ◆ Average Asking Rent



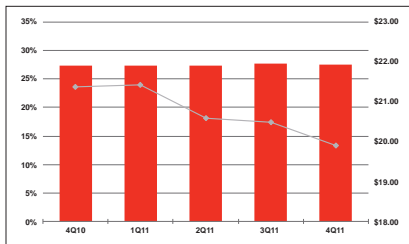
HUDSON COUNTY

■ Availability Rate vs. ◆ Average Asking Rent



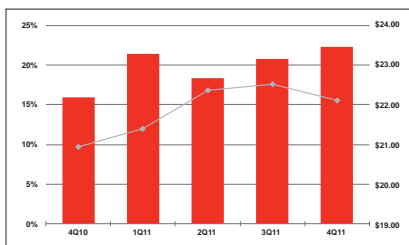
MORRIS COUNTY

■ Availability Rate vs. ◆ Average Asking Rent



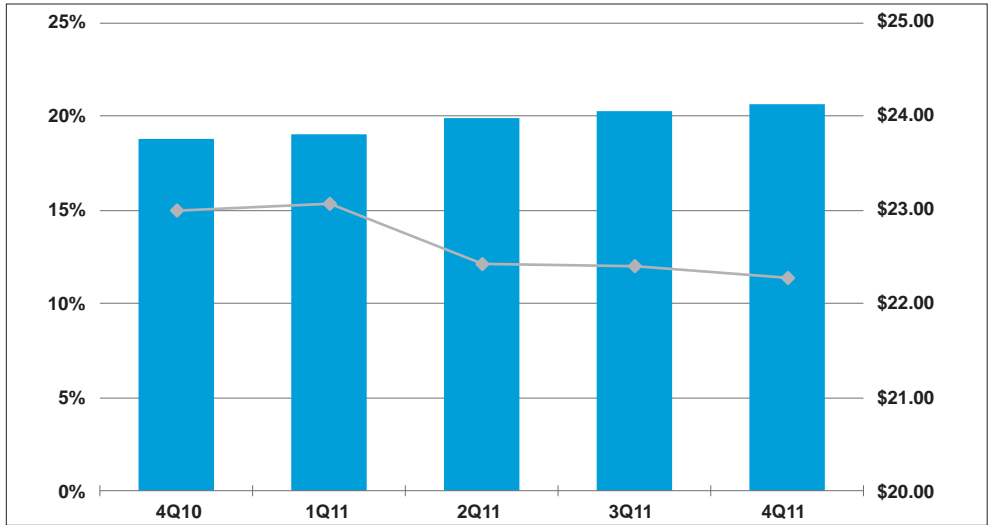
PASSAIC COUNTY

■ Availability Rate vs. ◆ Average Asking Rent



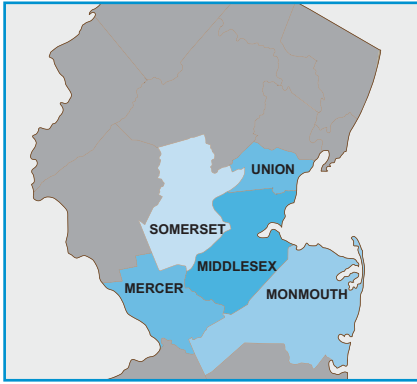
NORTHERN NEW JERSEY

■ Availability Rate vs. ◆ Average Asking Rent



RECENT TRANSACTIONS

TENANT	ADDRESS	CITY	COUNTY	SQ. FT.
Realogy	175 Park Avenue	Madison	Morris	270,000
PSE&G	440 Eagle Rock Avenue	Roseland	Essex	84,564
Prudential	7 Giralda Farms	Madison	Morris	65,000
Affiliated Computer Services (ACS)	200 Plaza Drive	Secaucus	Hudson	36,758
Advanced Internet (Conde Nast)	Harborside Plaza 5	Jersey City	Hudson	36,000
E K Success, Inc.	100 Delawanna Avenue	Clifton	Passaic	29,547
MWW Group, Inc.	1 Meadowlands Plaza	East Rutherford	Bergen	27,792
Capsugel, Inc.	412 Mt Kemble Road	Morristown	Morris	27,496
Untracht Early Management	325 Columbia Turnpike	Florham Park	Morris	23,989
Duane Morris, LLP	One Riverfront Plaza	Newark	Essex	20,035



CENTRAL NEW JERSEY

Market fundamentals are improving in the Central New Jersey office market, hopefully positioning the market for a positive 2012. From 4Q06-4Q10, the market experienced 16 of 17 quarters of negative net absorption. Since then, more than two million square feet of office space has been absorbed, lowering the availability rate from 21.6% to 19.9%. Four of the five counties in Central New Jersey (Monmouth being the exception) have lower availability rates when compared year-to-year. Areas performing well include Route 78 East and the North Edison/Woodbridge/MetroPark submarkets. The Route 1 corridor in Princeton is also tightening. Sublease space is becoming less plentiful, representing only 12.1% of available space. However, this could increase during 2012 as there is still corporate consolidations expected in parts of the region.

identify the costs of moving as a major factor in their decision-making process. In East Brunswick, PNC Bank extended its 131,363 square-foot lease at 2 Tower Center. Also in Middlesex County, Greenbaum, Rowe, Smith and Davis renewed its lease of 58,774 square feet at 99 Wood Avenue South in Iselin, located in Metro Park. In Union County, The TriZetto Group, Inc. renewed a lease of 83,651 square feet at 1085 Morris Avenue in Union Township. These lease renewals further indicate that landlords are motivated to do what it takes to retain their current tenants. New leases include PSE&G, who took 55,775 square feet at 40 Cragwood Road in South Plainfield and Ansell Healthcare, who is moving from Red Bank to Iselin to MetroTop Plaza II, leasing 43,210 square feet.

- Availability Rate: 19.9%
- Vacancy Rate: 16.1%
- Average Asking Rent \$21.94 + Tenant Electric

The average asking rent was slightly lower for the quarter, but still higher than a year ago. As of 4Q11, asking rents average \$21.94 per square foot gross, plus tenant electric, compared to \$22.19 the past quarter and \$21.56 during 4Q10. Higher rents can be expected in the Princeton South, North Edison/Woodbridge/Metro Park, and Route 78 East submarkets while rents are discounted along the southern Route 287 corridor.

Renewals represented the largest lease transactions during the quarter as many tenants

CENTRAL NEW JERSEY

County	Total Availability	Total Vacancy	Average Asking Rent
Mercer	17.0%	14.9%	\$25.45
Middlesex	23.3%	21.3%	\$21.54
Monmouth	20.2%	13.6%	\$21.57
Somerset	24.0%	16.3%	\$21.27
Union	10.6%	7.8%	\$23.01

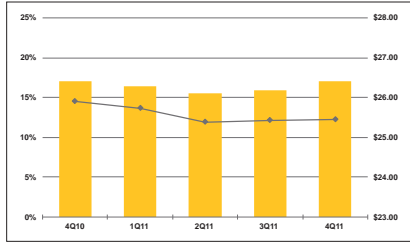


Renewals represented the largest lease transactions during the quarter, as many tenants identify the costs of moving as a major factor in their decision-making process.

CENTRAL NEW JERSEY

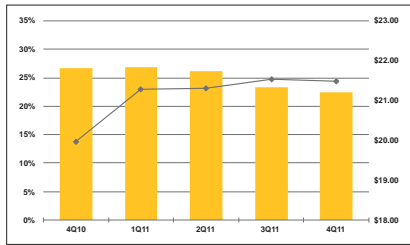
MERCER COUNTY

■ Availability Rate vs. ◆ Average Asking Rent



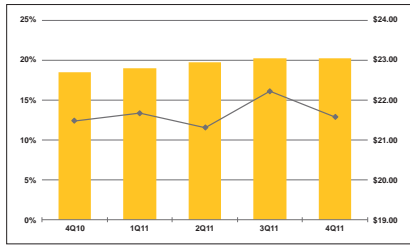
MIDDLESEX COUNTY

■ Availability Rate vs. ◆ Average Asking Rent



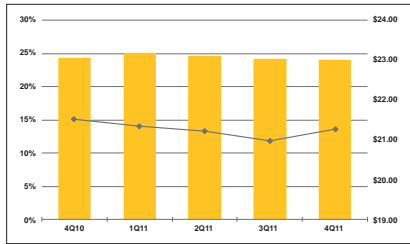
MONMOUTH COUNTY

■ Availability Rate vs. ◆ Average Asking Rent



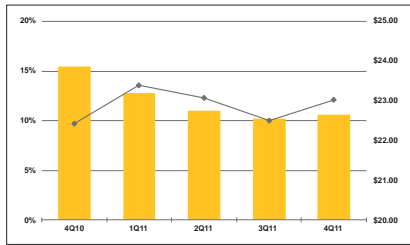
SOMERSET COUNTY

■ Availability Rate vs. ◆ Average Asking Rent



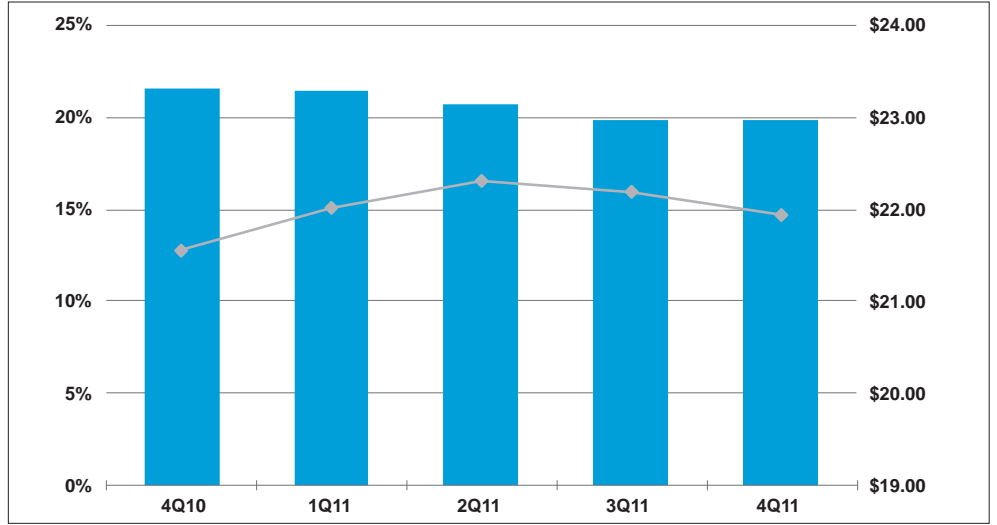
UNION COUNTY

■ Availability Rate vs. ◆ Average Asking Rent



CENTRAL NEW JERSEY

■ Availability Rate vs. ◆ Average Asking Rent



RECENT TRANSACTIONS

TENANT	ADDRESS	CITY	COUNTY	SQ. FT.
PNC Bank	2 Tower Center	East Brunswick	Middlesex	131,363
The TriZetto Group, Inc.	1085 Morris Avenue	Union	Union	83,651
Greenbaum, Rowe, Smith and Davis	99 Wood Avenue South	Iselin	Middlesex	58,774
PSE&G	40 Cragwood Road	South Plainfield	Middlesex	55,755
Ansell Limited	111 Wood Avenue South	Edison	Middlesex	43,210
McDonald's	111 Wood Avenue South	Edison	Middlesex	30,000
Teruma Medical	265 Davidson Avenue	Somerset	Somerset	24,430
GFK Market	1060 State Road	Princeton	Mercer	23,000
Intersil Corporation	440 Route 22 E	Bridgewater	Somerset	21,479
Roda Specialty Steel	178 Ridge Road	Dayton	Middlesex	20,000

being that the market is going to pop in the next couple of years. Tenants, on the other hand, are still willing to commit to longer term deals and are willing to relocate if the situation seems fit or if they can take advantage of incentive programs. Highlighting activity was a long term lease executed by Realogy, encompassing the relocation from its current corporate headquarters at the "Prudential" Campus in Parsippany to Hampshire's redevelopment of an old Verizon facility on Park Avenue in Florham Park. In addition to a "structured financing" lease structure and an incentive package from the State of New Jersey, this transaction adds to the momentum of redevelopment of older properties in the state, particularly for larger projects and tenancies. Prudential is also looking to take advantage of incentive packages, proposing a new development in Newark, projected to create 400 jobs for the insurance giant and an additional 2,000 construction jobs for the project.

Market players are all looking to 2012 with a great deal of anticipation. The presidential election awaits us, and it will be interesting to see if the tenants and landlords begin to anticipate the results. Unemployment remains a huge concern, but it seems that businesses are genuinely expecting that this is the year that the economy turns the corner. The European debt crisis is also a concern, and the markets are fluctuating daily as a result, while corporate America, who is sitting on large cash positions, is afraid to take initiatives that might otherwise stimulate employment. In New Jersey, the State is doing a better job of attracting and keeping business. "Choose New Jersey," an economic development group formed in 2010, recently met with corporate executives, company location advisors, and journalists in neighboring states to raise awareness of New Jersey as a prime location for investment. This is certainly a positive sign and a leading initiative in our local/regional economy.

ROBERT MARTIE
Executive Vice President /
NJ Region
973 299 3000
robert.martie@colliers.com

MATTHEW DOLLY
Senior Managing Director
Research & Analytics
973 299 3032
matthew.dolly@colliers.com

NORTHERN NEW JERSEY
119 Cherry Hill Road
Parsippany, NJ 07054
973 299 3000

CENTRAL NEW JERSEY
100 Overlook Center
Princeton, NJ 08540
609 269 1111

MIDTOWN MANHATTAN
380 Madison Avenue
New York, NY 10017
212 716 3500

136 Madison Avenue
New York, NY 10016
212 716 3500

DOWNTOWN MANHATTAN
1 Liberty Plaza
New York, NY 10006
212 716 3500

CONNECTICUT
1055 Washington Boulevard
Stamford, CT 06901
203 324 0800

**LONG ISLAND
NASSAU COUNTY**
1981 Marcus Avenue, E104
Lake Success, NY 11042
516 328 6500

**LONG ISLAND
SUFFOLK COUNTY**
200 Thirteenth Avenue
Ronkonkoma, NY 11779
631 389 2900

Information contained herein has been obtained from sources that we deem reliable. We have no reason to doubt its accuracy, but we do not guarantee it. Some statements in this report are forward-looking statements or statements regarding future events, which involve risk and uncertainty, and there can be no assurance that the results described in such statements will be realized.



Accelerating success.

UPDATE		4Q10	1Q11	2Q11	3Q11	4Q11	Last Year	Last Qtr	
NORTHERN NEW JERSEY									
Availability Rate (%)	Total	18.8%	19.0%	19.9%	20.3%	20.7%	1.9	0.4	pp
	Direct	16.0%	16.2%	17.0%	17.3%	17.9%	1.9	0.6	pp
	Sublease	2.8%	2.8%	2.9%	3.0%	2.8%	0.0	-0.2	pp
Asking Rental Rate	Total	\$23.00	\$23.06	\$22.42	\$22.40	\$22.27	-3.2%	-0.6%	
	Direct	\$23.30	\$23.44	\$23.37	\$23.30	\$23.29	0.0%	0.0%	
	Sublease	\$20.99	\$20.49	\$17.88	\$17.64	\$17.29	-17.6%	-2.0%	
Vacancy Rate (%)	Total	14.2%	14.3%	14.9%	15.1%	15.8%	1.6	0.7	pp
Absorption (Qtr)	Total	1,359,732	(372,836)	(1,133,719)	(476,452)	(486,408)	135.8%	-2.1%	

CENTRAL NEW JERSEY									
Availability Rate (%)	Total	21.6%	21.4%	20.7%	19.8%	19.9%	-1.7	0.1	pp
	Direct	18.5%	18.6%	18.2%	17.3%	17.5%	-1.0	0.2	pp
	Sublease	3.1%	2.8%	2.5%	2.5%	2.4%	-0.7	-0.1	pp
Asking Rental Rate	Total	\$21.56	\$22.02	\$22.31	\$22.19	\$21.94	1.8%	-1.1%	
	Direct	\$21.79	\$22.37	\$22.77	\$22.67	\$22.41	2.9%	-1.1%	
	Sublease	\$19.83	\$19.05	\$19.04	\$18.79	\$18.55	-6.5%	-1.3%	
Vacancy Rate (%)	Total	15.2%	15.4%	15.8%	16.3%	16.1%	0.9	-0.2	pp
Absorption (Qtr)	Total	(571,217)	192,442	717,104	1,071,447	90,838	115.9%	-91.5%	

NORTHERN & CENTRAL NEW JERSEY									
Availability Rate (%)	Total	20.0%	20.0%	20.2%	20.1%	20.3%	0.3	0.2	pp
	Direct	17.0%	17.2%	17.5%	17.3%	17.7%	0.7	0.4	pp
	Sublease	3.0%	2.8%	2.7%	2.8%	2.6%	-0.4	-0.2	pp
Asking Rental Rate	Total	\$22.30	\$22.56	\$22.37	\$22.29	\$22.11	-0.9%	-0.8%	
	Direct	\$22.57	\$22.92	\$23.07	\$23.02	\$22.87	1.3%	-0.7%	
	Sublease	\$20.46	\$19.84	\$18.34	\$18.08	\$17.78	-13.1%	-1.7%	
Vacancy Rate (%)	Total	14.6%	14.8%	15.3%	15.6%	15.9%	1.3	0.3	pp
Absorption (Qtr)	Total	788,515	(180,394)	(416,615)	594,995	(395,570)	150.2%	166.5%	

pp: percentage points