

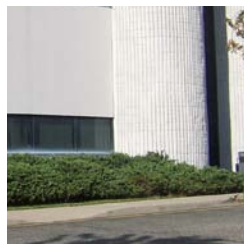
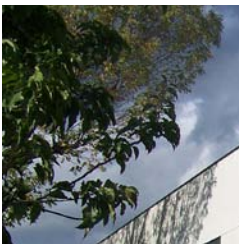
# NAI JAMES E. HANSON

Northern New Jersey Market Report - Fourth Quarter 2008

## This Quarter's Feature

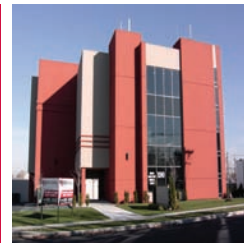


Investing in  
Medical Office Properties



# NAI James E. Hanson

Fourth Quarter 2008



Darren M. Lizzack, MSRE is an Associate Vice President for NAI James E. Hanson and is a seasoned veteran of the office market in Northern New Jersey. Darren provides a glimpse on investing in the medical office sector.



## What's your overall feeling about investing in the medical office sector?

I strongly believe this segment of the marketplace will deliver strong growth going forward through the next decade! There has been continuous demand for medical office product in recent years for a number of reasons, such as, the migration from traditional hospital procedures to ambulatory surgical centers (such as Bergen Ambulatory Surgical Center, which is located at 190 Midland Avenue in Saddle Brook, NJ (pictured above)). To understand why these facilities are in high demand, think about the costs incurred by your insurance company for having a procedure performed at a hospital; did you know that the fee paid to the doctor is most likely the smallest portion of your entire bill? By having a procedure performed in what may be a newer, cleaner and more sanitized facility, not only do you, the patient, receive better care, but your insurance company is saving money and it is possible your doctor is getting paid more than if the procedure was performed in the hospital.

Hospitals are lobbying to try and put a stop to this growing trend because it obviously hurts their business. In Northern New Jersey, there are other barriers to entry other than simply political reasons such as a shortage of land available to develop, as well as, the costs associated with constructing these facilities.

## What does all this mean for investing in medical office buildings?

Our economy is contracting due to the economic challenges we face today, however, the age of our population continues to advance. More specifically, Baby-Boomers who are 55 or older (approximately 11 million more people will fit this category by 2012) will require additional medical attention. With advances in the medical field, people are working and living much longer than previous generations. We are also faced with a new, democratic administration that will spend government money in different ways than, in recent years, by the outgoing presidential administration. I believe this will add up to increased demand for medical space in coming years and therefore, coupled with limitations on delivering new inventory to the marketplace, pricing will be driven upwards in this market segment.

The good news is due to the aging population, demand continues to increase for medical products, services and procedures. This results in a higher demand for medical office buildings. With the high barriers to entry with constructing these types of facilities, it is

## Medical Office Space Available for Sale or Lease by NAI James E. Hanson

Address	City	Space Available
717 Willow Grove Street	Hackettstown	1,500-25,800 sf
197 South Washington Avenue	Bergenfield	12,700 sf
190 Midland Avenue	Saddle Brook	Up to 5,500 sf
3219 Route 46 East	Parsippany	3,517 build-to-suit
65 South Street	New Providence	3,400 sf
200 Middlesex Essex Turnpike	Iselin	3 units: 1,700-2,500 sf
90 Prospect Avenue	Hackensack	2,400 sf

Source: Costar 2008

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very likely that demand will increase at a higher rate than supply of this product type. Basic economics indicate that price is simply driven by the balance between supply and demand. Statistics show that the population reaching 55 over the next four years will equate to approximately a 14.3% increase for this age bracket! This growth exceeds the next fastest growing age group more than fourfold. Although the overall unemployment rate seems to be at the highest level we have seen in several years, it appears the healthcare industry as a whole will continue to prosper.

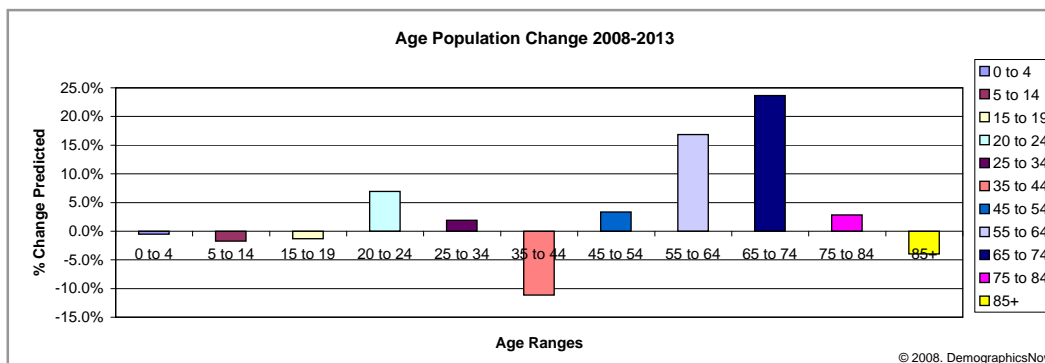
According to a recent CoStar Forecast Report for 2009, healthcare (followed by self-storage) has the fewest delinquent loans and was listed as having virtually no potential problems in 2009. On the other end of the spectrum, multi-family, retail and office respectively have the largest number of delinquent loans.

"Healthcare has the fewest delinquent loans"

CoStar Forecast Report 2009

## What are your predictions for the future?

Based upon the information I have been seeing, with respect to the health care industry, coupled with my daily involvement with medical office buildings, I remain optimistic in 2009 for investment in this product type. More medical practitioners would like to own their own facility because it enables them to have more control of their own destiny. I predict there is going to be more movement towards adaptive and repositioning of buildings to medical condominiums. Capital is still readily available for medical practitioners despite the recent credit crunch and therefore, savvy real estate professionals are going to tap into this marketplace in the foreseeable future to capitalize on this unique opportunity.



## Medical Office Space Available for Sale or Lease by NAI James E. Hanson

Address	City	Space Available
199 Baldwin Road	Parsippany	2,210 sf
122 E. Ridgewood Avenue	Paramus	2,155 sf
85 Orient Way	Rutherford	2 Suites: 1,200 & 1,350 sf
375-379 East Main Street	Somerville	1,200 sf
400 Old Hook Road	Westwood	3 Suites: 900-2,900 sf
112 South Washington Avenue	Bergenfield	1,200 sf
200-214 Engle Street	Englewood	6 Suites: 579-2,000 sf

Source: Costar 2008

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Northern NJ Office Report | Fourth Quarter 2008



## '08 vs '07:

Office Direct  
Vacancy

4.4%

Office Sublet  
Vacancy

2.6%

Office Direct  
Rates

.5%

Office Sublease  
Rates

.6%

## OVERVIEW FOR OFFICE A & B:

### OFFICE A

At the end of the 4<sup>th</sup> quarter, vacancy was 15.5% with over 20 million square feet available, an increase of 5.1% versus 2007.

Direct space vacancy increased 7.3%, while sublet space decreased 4.2%. Direct vacancy was 12.9% and sublet vacancy was 2.6%.

1.39 million square feet of office space was leased during the 4<sup>th</sup> quarter, 46.9% less than in 2007 and 29.1% less than in 2006.

Passaic County had the highest percent of vacancies with 22.3% of space vacant and 845,954 square feet available.

The county with the most vacant square feet was Morris County with over 4.8 million square feet available, representing 23.7% of all available Office A space in Northern New Jersey.

Rates increased .9% versus 07 and averaged \$27.54. Hudson County's rates remained the highest at \$32.00.

Bergen County had the highest absorption with 177,137 of square feet absorbed.

### Office B

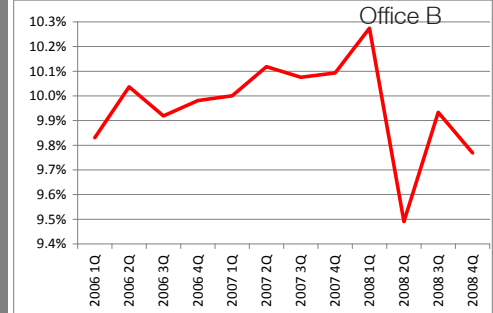
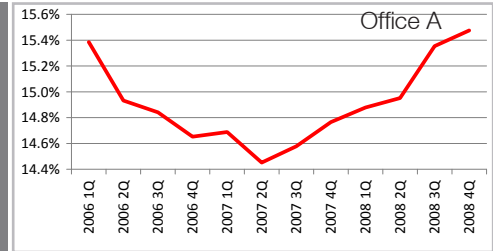
Vacancy was 9.8%, which is the same rate as the first quarter of 2006. There was 7.3 million square feet available.

The most space leased was in Middlesex County with 117,038 square feet leased, but they also experience the highest vacancy rates with 12.5% of space vacant.

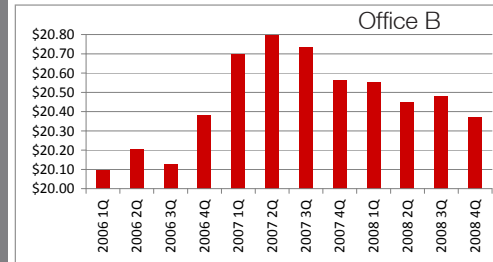
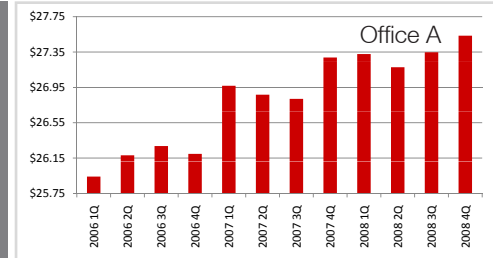
Hudson County's 7.8% vacancy decreased from 10.7% in 2007 and 16.6% in 2006.

Overall, 4<sup>th</sup> quarter rates at \$20.37 were the lowest since the 4<sup>th</sup> quarter of 2006. 70% of counties experience decreases in rates (Only Hudson, Orange & Sussex counties experienced increases in rates).

Vacancy 2006-2008



Rates 2006-2008



\*Northern NJ Market includes Rockland and Orange County NY

## Major Lease Transactions

Tenant	Size (SF)	Address	City
Hudson Group	62,000	1 Meadowlands Plaza	East Rutherford
Kumon North America Inc.	41,000	Glenpointe Centre East	Teaneck
Whole Foods	38,000	Sylvan Corporate Center	Fort Lee
IBM	35,541	1551 S. Washington Avenue	Piscataway
Everest Re Group, LTD.	31,394	477 Martinsville Road	Basking Ridge

Source: Costar 2008

# NAI James E. Hanson

## Northern NJ Industrial Report | Fourth Quarter 2008



### '08 vs. '07:

Ind. Direct  
Vacancy



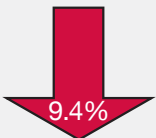
Ind. Sublet  
Vacancy



Ind. Direct  
Rates



Ind. Sublease  
Rates



### OVERVIEW FOR INDUSTRIAL:

Overall, vacancy rates were 7.5%, versus 6.8% in 2007 and 6.4% in 2006.

There was over 55.3 million square feet available. Middlesex County's 17.1 million square feet contributed to over 30% of the total.

Almost 4 million square feet was leased during the 4th quarter of 2008, the lowest in the past three years and 6.3 million less than in the 4th quarter of 2007 when 10.3 million square feet was leased.

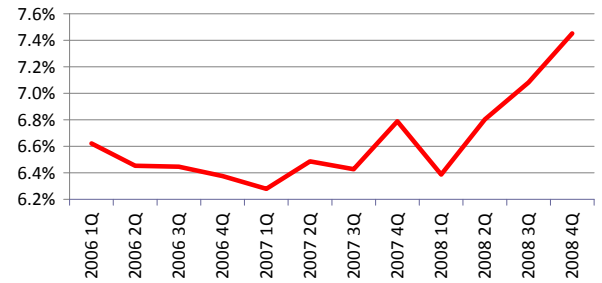
Overall, rates decreased slightly to \$6.59 and were the lowest since the 3rd quarter of 2007.

Direct rates remained flat while sublet rates decreased by 9.4%. to \$6.28, versus \$6.94 a year ago.

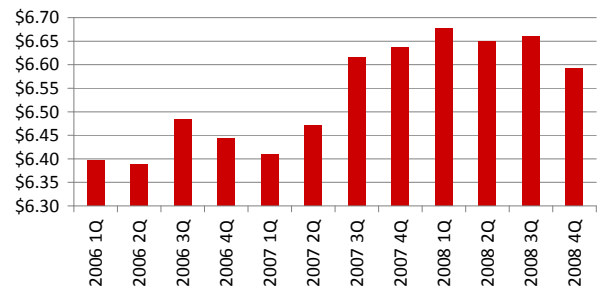
Bergen County demanded the highest rates, asking \$7.81 per square foot. Its rates increased 7.9% versus 2007, yet they were the same as the rates in the 3rd quarter of 2006.

Total absorption was negative 1.5 million square feet, with Middlesex County contributing negative 1.7 million square feet. Bergen County had the highest net absorption with a positive 450,678 square feet.

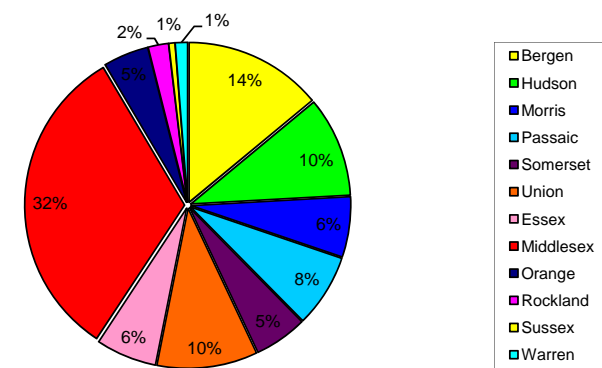
Vacancy 2006-2008



Rates 2006-2008



Available Space by County



### Major Lease Transactions

Tenant	Size (SF)	Address	City
Melissa & Doug Educational Toys*	208,889	1203 Cranbury-South River Road	South Brunswick
DSA Inc.	200,000	23 Mack Drive	Edison
Celebrity International Inc	93,702	30 Saw Mill Pond Road	Edison
Bartlett Dairy*	75,440	203 Kuller Road	Clifton
Givaudan Flavor Corp.*	20,554 sf	135 Algonquin Parkway	Whippany

\*NAI James E. Hanson, represented the tenant, landlord, or owner in these transactions.

Source: Costar 2008

# Our New Listings

For a complete list of our exclusive properties, call us or visit our website at [www.naihanson.com](http://www.naihanson.com)



For Lease - 9,500 sf  
190 Main Street  
Hackensack, NJ



For Lease - Medical Suites  
373-375 Main Street  
Somerville, NJ

## LAND FOR SALE in New Jersey

5.0 Acres	Somerset
3.2 Acres	Rochelle Park
2.0 Acres	Newark
1.3 Acres	Hawthorne
1.23 Acres	West Paterson
.48 Acre	Teaneck



For Lease - 23,000 sf  
120 Kero Road  
Carlstadt, NJ



For Sale or Lease - 7,000 sf  
410-14 Central Ave  
Seaside Park, NJ



For Lease - 9,963 sf  
10 Bushes Lane  
Elmwood Park, NJ



For Lease 5,080 & 8,000 sf  
60 Railroad Avenue  
Teterboro, NJ



For Sale or Lease - 6,000 sf  
270 Broadway  
Hillsdale, NJ



For Lease - 4,200 sf  
600 Huyler Street  
South Hackensack, NJ



For Sale or Lease - 18,000 sf  
33 Randolph Avenue  
Carteret, NJ



For Sale or Lease - 9,000 sf  
1700 Route 3 West  
Clifton, NJ



For Lease - 3,100 sf  
23 Village Green Road  
Madison, NJ



For Lease - 3,600 sf penthouse  
86 Summit Avenue  
Summit, NJ



For Lease - 60,000 sf  
1835 Burnet Avenue  
Newark, NJ



For Sale - Auto Body Repair Shop  
226 River Street  
Hackensack, NJ

## About NAI James E. Hanson

NAI James E. Hanson is committed to providing the highest quality commercial real estate services in New Jersey and has been since it was founded in 1955 by James E. Hanson. Our 25 year partnership with NAI Global allows us to offer our full service capabilities around the world. We are a managed network of 5,000 professionals and 325 offices in 55 countries throughout the world.

### Our core services include:

- Industrial
- Tenant Representation
- Corporate Services
- Logistics
- Office
- Land
- Property Management
- Property Valuation
- Retail
- Investment
- Government Services
- Financing

**NAI James E. Hanson**

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