

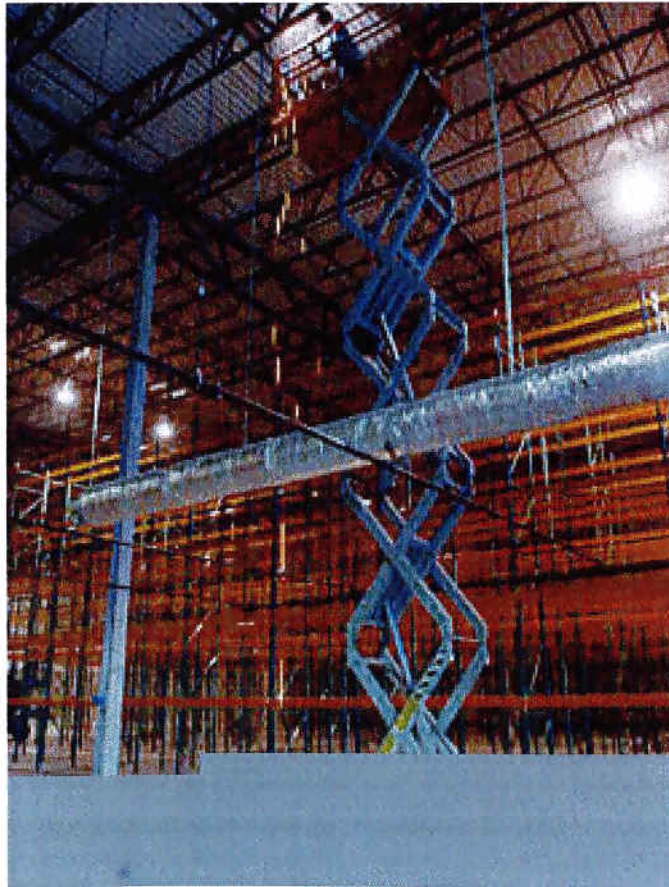


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BUSINESS

Real estate firms pour resources into hot sector

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BETH BALBIERZ / THE RECORD

Stone Source, a Manhattan-based supplier of stone and tile products, moved its distribution center to Carlstadt, thanks to a low asking rent of \$8 a square foot, according to Cushman & Wakefield.

With sales of office space sluggish, some commercial real estate firms are setting their sites on an area showing solid and stable growth in New Jersey: industrial real estate.

In the past 12 months, strong momentum in the New York City-northern New Jersey region has boosted the area five places in Marcus & Millichap's annual National Industrial Index to No. 5, making it one of the hottest regions in the nation.

CB Richard Ellis, one of the world's largest real estate firms, said in a recent report that a "remarkable" 10 million square feet of industrial space is being added to the market in New Jersey this year. Average asking rents are expected to rise 2.6 percent this year, to \$5.87 a square foot, after increasing 2.9 percent in 2006, according to Marcus & Millichap, a national real estate investment firm.

This trend has prompted at least one large real-estate firm -- Cushman & Wakefield -- to pour new resources into brokering deals in the industrial market.

Stan Danzig, executive director of Cushman & Wakefield, who operates out of the company's East Rutherford office, said the firm has a new initiative to double industrial real-estate transactions in the next two years. The company plans to increase by twofold the number of brokers focused on the industrial market.

"For us, it's really a natural evolution," said Gil Medina, executive managing director of the company's New Jersey branch. "In New Jersey, it's a significant component of how we're going to increase market share and revenue."

So far, Cushman & Wakefield has added 15 junior-level brokers to its industrial brokerage team in New Jersey, said Medina. Cushman & Wakefield is considering hiring a smaller firm experienced in the local industrial market for an immediate infusion of new talent.

Another factor driving Cushman & Wakefield's expansion in the industrial market is the desire to compete better with CB Richard Ellis, said Danzig and Medina in separate interviews. While both firms make headlines with frequent large-scale industrial transactions, they only control 40 percent of the industrial market share in New Jersey, with the rest taken by small firms, Medina said.

"It's a form of flattery that they're still focused on competing with us," said Jeff Hipschman, managing director of CB Richard Ellis' central New Jersey office in East Brunswick. "We have a large, global approach to our industrial business. Our focus is on providing more value to our clients. The tendency of some firms is to hire more brokers and throw more people at it, because that will increase revenue. That's definitely one approach. Ours is to show more value to the client, and we do that by becoming more specialized."

This means zeroing in on trends such as clients looking for state-of-the-art, automated warehouses, food-and-clothing supply companies looking for storage space, or the needs of logistics businesses shipping goods from the ports in Newark and Elizabeth, Hipschman said.

For Cushman & Wakefield's growing industrial team, increasing market share means getting involved with projects that may not have taken precedence before. The company points to the Meadowlands Distribution Center in Carlstadt as an example of this.

Until five years ago, the center was a landfill on an 18.4-acre parcel on Starke Road. In 2002, it was purchased by Whitehall Industrial Properties of Edison, which began work on a \$20 million project to transform the brownfield site into a 368,112 square-foot, 32-foot-high ceiling industrial complex.

Cushman & Wakefield signed on as the executive marketing agent for the completed building, and in April announced it had fully leased it to four tenants. One of them, Stone Source, a Manhattan-based supplier of stone and tile products, was lured to Carlstadt by the center's low asking rent, about \$8 a square foot, Danzig said. Stone Source consolidated three facilities in Brooklyn to move into the Meadowlands Distribution Center.

"There's just a tremendous amount of revenue that can be earned in this market," said Stephen Elman, a director with Cushman & Wakefield.

Mindy Lissner, senior vice president of CB Richard Ellis and a member of its New Jersey industrial team, said that with the office market currently "feeling some pains," it's only natural that many firms are turning to industrial as a more promising source of revenue.

"New Jersey as a whole will always maintain a brisk amount of activity in the industrial sector because it has all the factors that lend itself to a strong industrial market," Lissner said. "It has a strategic location in the Northeast, with [Port Newark and Port Elizabeth] being primary. And the

consumers are here. Put all those factors together, and it's got everything that a logistics company needs. It factors into companies' entire supply-chain strategy."

Both Danzig and Medina said they see opportunity within the industrial market's fragmented playing field. But some analysts are advising caution, pointing to indicators that New Jersey actually experienced a weak first quarter, a trend mirroring the rhythm of the national market.

David T. Houston Jr., president of Colliers Houston & Co., said the vacancy rate in North Jersey's industrial market rose to 6.4 percent from 5.9 percent in the first quarter, indicating a decreasing level of demand. Between 40 million and 50 million square feet of industrial space in New Jersey remains vacant; with only 3,300 private-sector jobs added to the state's job force in 2006, it's unclear who is going to utilize that space, Houston said.

Michael Pembroke, senior vice president for leasing and marketing with **Russo Development** in Hackensack, also expressed what he called "tempered enthusiasm" for the state of the industrial market.

Rising construction costs in New Jersey may force owners to increase the asking rents at their buildings, which could have a chilling effect for businesses who would otherwise be lured to North Jersey sites due to cost savings, Pembroke said.

Russo has developed industrial and office buildings, many of them in Bergen County, for the past 40 years. The firm was given the National Association of Industrial and Office Properties' Impact Award earlier this year for its work in transforming contaminated brownfields into Class A facilities. In January, Russo scored a local coup by securing the Pepsi Bottling Group Inc. as a lease tenant for its 135,000-square-foot Saw Mill Park development in Kearny, which was built on the site of a remediated landfill.

Vacancy rates within property controlled by Russo have remained at 2 percent for years, "so we're certainly not complaining," Pembroke said.

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