

OFFICE MARKET



Office Market Continues Post-Recession Success

Nearly 10 million square feet absorbed during current economic expansion

OVERVIEW

More Discipline as Extended Recovery Softens

The U.S. economy's slower growth in 2019 reduces the likelihood of overheating and may extend the recovery indefinitely. Corporate profits are rising, albeit at a slower pace. Record corporate debt merits close monitoring for signs of distress, but so far has performed without significant defaults or credit events. There is a tendency for late-cycle observers to wear dark-tinted glasses, however, and seek evidence to vindicate growing economic fears. Due to this uncertainty, expect companies to slow hiring and take longer with occupancy choices and other major decisions. Concerns exist in New Jersey as State employment decreased in February while the previous growth that was reported for January was revised lower. However, while seven of the nine major private industry sectors recorded losses, employment was higher in the professional and business services sector, boding well for office employment.

DEMAND

Occupancy Levels Continue Higher

The current economic expansion began in June 2009, and a couple of years later, the office market in New Jersey began recovering the losses it suffered during the Great Recession. Since then, nearly 10 million square feet was absorbed. In addition, occupancy levels increased for four consecutive quarters through Q1 2019, the first streak of that length since Q1 to Q4 2014. During the past 12 months, 1.4 million square feet has been absorbed. Sustained suburban resurgence was indicated by strong performing submarkets along the Garden State Parkway, including the Monmouth East submarket, where the occupancy level rose above 90% for the first time since 2007. As for the urban markets, downtown Newark continued to perform well while vacancy has trended upward in Jersey City. Hoboken has remained stable. Leasing along the Hudson Waterfront during the second half of 2018 should help improve occupancy levels upon move-in during 2019.

TRENDLINES

5-YEAR TREND CURRENT QUARTER

JOB GROWTH



4,500 JOBS

Losses following January peak

ABSORPTION



256,221 SF

Fourth consecutive positive quarter

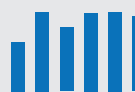
VACANCY



14.7 %

Lowest since 2009

UNDER CONSTRUCTION



1.6 MSF

Smaller developments in suburbs

RENTAL RATE



\$26.86 PSF

Sublease space impact

VACANCY

More Potatoes than Meat

The overall vacancy rate ticked down slightly for the quarter and is now at its lowest level in nearly 10 years. Activity was led by a success story of the modernization of an outdated suburban office building. Celularity, a commercial-stage cell therapeutics company, signed a lease to occupy the entire 147,215-square-foot office building at 170 Park Avenue in Florham Park. It was the only new lease signed in New Jersey for greater than 100,000 square feet during Q1 2019. A majority of the leases signed during the quarter were for less than 25,000 square feet. Geographical balance was represented as nearly half of the 21 submarkets recorded more than 100,000 total square feet of leasing. Business service companies led mid-sized lease signings. Law firms were also active, with deals averaging nearly 30,000 square feet per lease during Q1, while the medical industry led smaller deal activity.

SUPPLY AND DEVELOPMENT

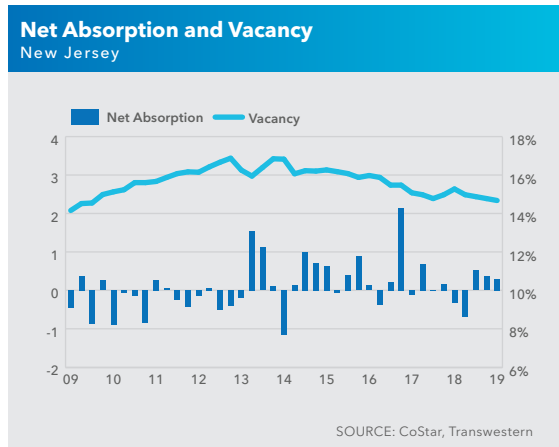
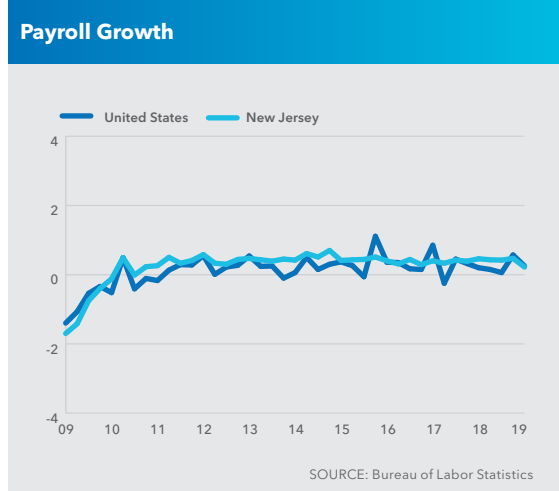
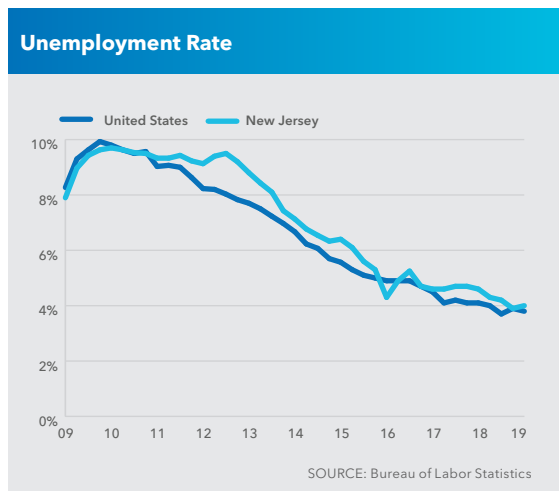
Limited Space Available in New or Renovated Product

During the past ten years, more than 10 million square feet of new development has been added to the New Jersey office market. As of Q1 2019, less than 5% of that new inventory remains vacant. While some of the new product was build-to-suit for single tenant use, more than half of the buildings house multiple tenants, and only 8.1% of space within these properties remains unoccupied. As tenants sought new space, many owners committed to substantial capital improvement programs to upgrade their older properties to today's standards. These owners enjoyed increased leasing activity, with Celularity being the latest success story. The trend is expected to continue because, as there is minimal new construction in the pipeline, major renovations are planned for properties such as Gateway Center in Newark and the Warren Innovation Center in Somerset County.

RENTAL RATES

Higher in Upgraded Buildings

Despite receding slightly, rents are still trending upward. At the close of Q1 2019, the average was \$0.08 lower, as 12 of 21 submarkets reported lower asking rents. Despite the lower rate for quarter, the overall average is fourth highest on record for New Jersey. When compared over a longer period, office rents are up 8.9% during the past five years and higher by 2.0% year-over-year. Most areas continue to trend higher during the long-term as rents increased in 13 of 21 submarkets during the past 12 months. Rents in five submarkets have increased by more than 5.0% year-over-year: Bergen East, Edison South, Meadowlands, Parsippany Region, and Wayne/Paterson. Rents are also being raised in buildings which are being upgraded, in part due to increased demand but also because owners need to recover higher construction costs.



INVESTMENT SALES

Trophy Assets Traded

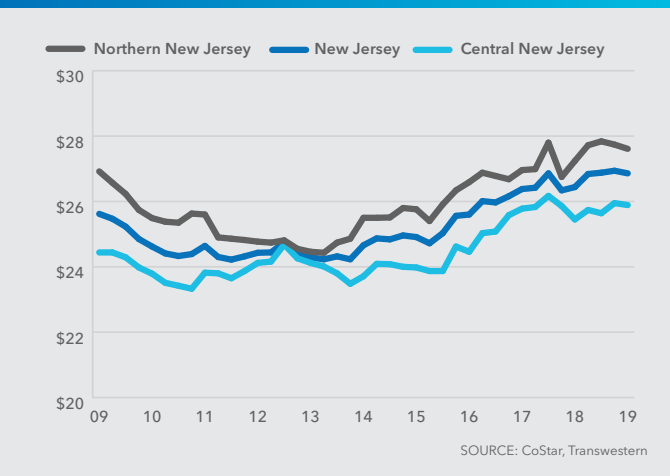
Three trophy assets in three prime submarkets led sales activity for Q1 2019. In Morris County, a private buyer acquired 300 Kimball Drive, a +/- 400,000-square-foot building in Parsippany. The property, which was once occupied by a single tenant, was at the forefront of suburban office redevelopment when renovations began in 2012 and is now 78% leased by multiple tenants. The highest-priced sale during the quarter occurred on the Hudson Waterfront as Newport Office Center, a +/- 430,000-square-foot building sold to iStar from The Lefrak Organization for \$485 per square foot. In central New Jersey, Mack-Cali acquired 99 Wood Avenue South, a +/-272,000 square foot office tower in Metropark, located in the Woodbridge/Metro Park submarket in Middlesex County. These three trophy property sales represent investors seemingly insatiable appetite for high-quality, well-located and well-leased assets.

OUTLOOK

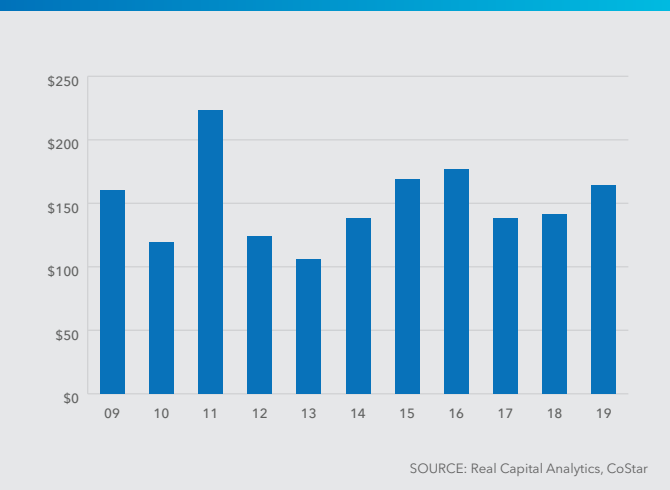
Talented but Highly Taxed Workforce

Garden State residents and business, who are already burdened by high taxes, are facing a proposed increase in the state budget, which could widen the already competitive disadvantage the state faces within the region. Incentives remain critical as the State mulls proposals on restructured programs. Despite the challenging business climate, companies remain attracted to the state's talent pool, accessibility and connectivity. In fact, WalletHub recently ranked New Jersey as the 12th most innovative state, and more than 1,000 technology jobs were added during 2018. Due to high prices in walkable downtowns, millennials are expanding their geographical parameters for living preferences to areas just outside downtowns, which can only help suburban business, and consequently, the suburban office market.

Average Asking Rental Rates
New Jersey



Average Office Sales PSF
New Jersey



Notable Q1 Lease Transactions

TENANT	DEAL TYPE	ADDRESS	CITY	SF
Celularity	New	170 Park Avenue	Florham Park	147,215
Amarin Corporation	New	440 Route 22 E	Bridgewater	67,747
Ricoh USA	New	2 Gatehall Drive	Parsippany	55,893

SOURCE: CoStar, CompStak, Transwestern

New Jersey Office Market Indicators

SUBMARKET	INVENTORY	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	NET ABSORPTION QUARTER	NET ABSORPTION YEAR-OVER-YEAR	AVERAGE RATE PSF
Bergen Central	7,919,345	12.5%	13.4%	0	145,702	208,152	\$26.53
Bergen East	11,064,701	9.0%	10.4%	360,000	11,310	236,614	\$29.34
Bergen North	11,683,282	11.7%	12.3%	11,000	(49,335)	132,122	\$26.61
Brunswick	5,102,399	11.5%	12.1%	0	(27,629)	(37,523)	\$28.01
Edison South	4,110,461	8.6%	8.7%	0	(25,972)	61,897	\$25.29
Hudson Waterfront	23,618,487	15.6%	16.8%	0	(287,808)	(600,974)	\$35.63
Meadowlands	6,751,398	15.7%	16.3%	340,000	(262,371)	(133,558)	\$26.47
Monmouth East	13,782,635	8.8%	9.8%	45,200	97,905	296,366	\$26.44
Monmouth West	3,663,115	7.1%	7.1%	22,912	27,025	31,415	\$21.96
Morris West	3,892,312	35.6%	35.6%	0	8,178	(28,276)	\$22.41
Morristown Region	12,193,320	15.9%	18.3%	0	(24,824)	18,316	\$28.54
Newark/Urban Essex	19,482,686	15.0%	15.5%	567,532	99,239	148,441	\$28.98
Parsippany Region	19,450,924	18.6%	23.1%	64,000	54,463	69,522	\$28.03
Princeton Area	35,770,857	12.4%	14.2%	173,105	186,320	270,120	\$26.27
Route 280/Suburban Essex	12,424,459	9.5%	9.7%	0	84,937	135,972	\$25.87
Route 287 South	11,034,803	14.8%	16.7%	0	(4,821)	149,266	\$20.19
Short Hills/Millburn	4,684,027	2.7%	4.3%	0	(17,916)	43,158	\$31.76
Somerset/I-78 East	23,388,782	11.2%	14.0%	0	63,826	141,214	\$26.35
Union/Parkway	6,171,292	10.5%	10.7%	0	104,230	93,956	\$24.70
Wayne/Paterson	10,702,962	15.9%	16.0%	0	88,968	168,829	\$22.97
Woodbridge/Metro Park	7,068,370	12.3%	13.0%	0	(15,206)	33,840	\$31.81
TOTAL	253,960,617	13.3%	14.7%	1,583,749	256,221	1,438,869	\$26.86

Office Market Indicators by Class

PROPERTY CLASS	INVENTORY	DIRECT VACANCY	OVERALL VACANCY	UNDER CONSTRUCTION	NET ABSORPTION QUARTER	NET ABSORPTION YEAR-OVER-YEAR	AVERAGE RATE PSF
Class A	148,854,852	13.2%	15.1%	1,220,137	146,316	791,457	\$29.06
Class B	105,105,765	12.9%	13.8%	363,612	109,905	647,412	\$23.31
TOTAL	253,960,617	13.3%	14.7%	1,583,749	256,221	1,438,869	\$26.86

SOURCE: CoStar, Transwestern

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METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in northern and central New Jersey. This report includes single-tenant, multi-tenant and owner-user Class A & B office properties 10,000 SF and larger.

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