

OFFICE MARKET



Development, Redevelopment Attest to Market Success

New and upgraded inventory contribute to rising rents

OVERVIEW

Economy Continues Historic Run

The U.S. economy marked 10 years of growth and set a record as the nation's longest-running recovery. But with 2.3% average annual growth, it is also our weakest expansion of modern times, trailing well behind the 3.8% annual growth generated from April 1991 through December 2000. This plodding pace may be dampening volatility that is typical amid faster recoveries, and it is certainly keeping inflation at bay, motivating Federal Reserve officials to hold the fed funds rate steady. For New Jersey, private sector unemployment dropped to 3.8% in May as the state gained 42,000 private sector jobs in the past 12 months. Small businesses are optimistic as a recent survey by Provident Bank resulted in 80% expecting revenues to improve over the next year, and more than half expecting to hire over the next 12 months. Also, a recent study by WalletHub ranked the Garden State as the fourth best state to live, boosted by its education, quality of life, and safety.

DEMAND

Five Quarters of Gains

The New Jersey office market continues to tighten, recording positive absorption for the fifth consecutive quarter. The close of March 2019 marked the best 12-month trailing absorption total since March 2017. Positive quarterly absorption occurred in slightly more than half of the submarkets, 15 of 21 when compared year-over-year. Overall occupancy levels were better than the state average in 13 of 21 submarkets. While no new deals were signed for greater than 100,000 square feet, large tenants who signed previous leases and moved in during the quarter boosted occupancy levels, and several large pending deals should positively impact the market during the second half of the year. Active tenants included life sciences companies, government, law firms, professional services firms, and health care related companies.

TRENDLINES

5-YEAR TREND CURRENT QUARTER

JOB GROWTH



7,600 JOBS
Small business hiring

ABSORPTION



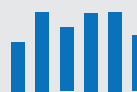
680,629 SF
Move-ins of previous signings

VACANCY



14.7 %
Tightening slowly

UNDER CONSTRUCTION



1.2 MSF
Groundbreakings, repositionings

RENTAL RATE



\$27.22 PSF
Highest on record

VACANCY

Private Sector Heads to the Suburbs

Vacancy ticked down another tenth of a point for the fourth straight quarter to its lowest level in 10 years. As the trend of young adults returning to the suburbs continues, businesses are following. That was indicative during Q2 2019 as increased leasing activity occurred in areas west and south of New York City. Submarkets with the most leases signed included Somerset/I-78 East, Princeton Area, Morristown Region, Parsippany Region and Monmouth East. The largest leases signed in the suburbs were by life sciences companies. IQVIA subleased 115,000 square feet in the Somerset/I-78 East submarket and Genmab US, Inc. took space in the Princeton submarket. Government tenants were active in Newark, with the largest downtown lease signed by U.S. Immigration and Customs Enforcement. Also, The County of Essex acquired two buildings totaling +/-150,000 SF and are expected to occupy both facilities. Choose New Jersey also committed to relocating to Newark, joining the office of the governor and the NJEDA at Gateway Center.

SUPPLY AND DEVELOPMENT

Projects in Both Urban, Suburban Markets

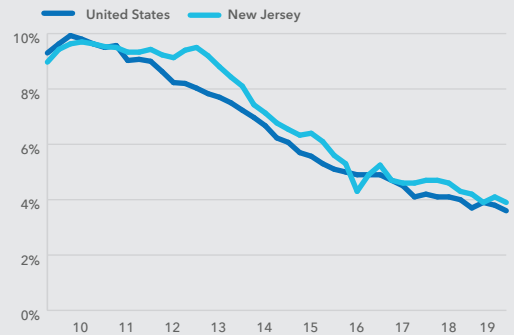
Ground was broken at the historic Maxwell Place in Hoboken during the quarter, the final building in Toll Brothers City Living’s mixed-use development and the first speculative office development built during the current market cycle. In the suburbs, in Morristown, SJP Properties and Scotto Properties are planning to add +/-350,000 SF of office space as part of a redevelopment of a shopping center, while Silverman submitted plans for +/-110,000 SF of office space above existing retail properties. Other suburban assets have been acquired by investors who plan property upgrades or redevelopment to higher and better use, in some cases taking vacant obsolete office product off the market, improving overall occupancy levels.

RENTAL RATES

Continued Demand Pushing Rents Upward

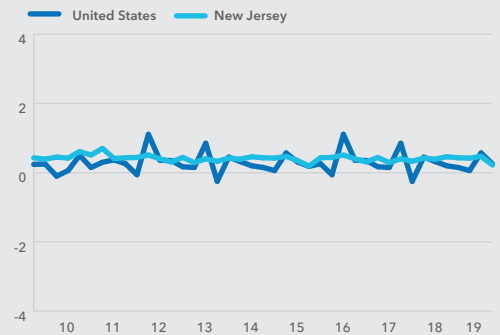
Office space in new and upgraded buildings are commanding rents substantially higher than the market average. Landlords increased rents in buildings in both urban and suburban markets that have experienced successful leasing after undergoing capital improvements, and asking rents were also raised in properties which are beginning their repositioning programs. As a result, rents rebounded from a one-quarter dip and surged to a historical peak for the second time in the past three quarters. As of Q2 2019, the average asking rent was \$27.22 PSF, surpassing \$27.00 PSF for the first time. More than three-quarters of the submarkets recorded higher rents, both when compared to previous quarter and year-over-year, including in multiple submarkets with increases by more than 5.0% during the past 12 months: Woodbridge/ Metro Park, Edison South, Parsippany Region, Hudson Waterfront, Wayne/Paterson, Somerset/I-78 East.

Unemployment Rate



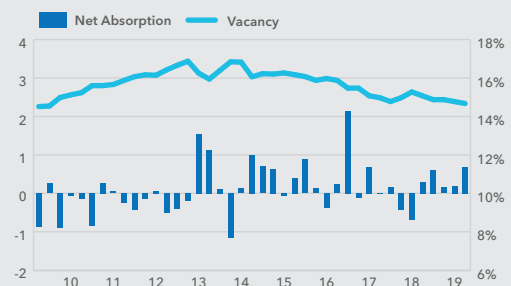
SOURCE: Bureau of Labor Statistics

Payroll Growth



SOURCE: Bureau of Labor Statistics

Net Absorption and Vacancy
New Jersey



SOURCE: CoStar, Transwestern

INVESTMENT SALES

Opportunities Slim, but Still Exist

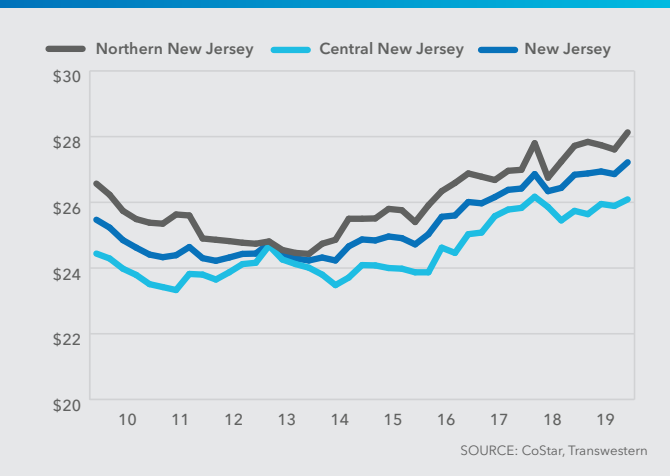
Office building sales during the quarter exemplified current investor interests of either acquiring well-leased quality assets or value-add opportunities. In the largest New Jersey portfolio sale during the quarter, Signature Acquisitions acquired four fully-leased, single-tenanted buildings, three in Parsippany and one in Woodcliff Lake, totaling +/-650,000 square feet for \$93.6 million. Also in Woodcliff Lake, Brooklyn-based Sheila Properties, Inc. acquired 155 Tice Boulevard for \$305 per square foot. The +/-118,000-square-foot building in northern Bergen County is fully-occupied long-term by Eisai Inc., a Japanese-based pharmaceutical company. A value-add acquisition was made when American Equity Partners acquired 1 Tower Center Boulevard in East Brunswick for \$91 per square foot. The buyer, also from New York, plans to make several million dollars in improvements to the multi-tenanted, 417,500-square-foot building.

OUTLOOK

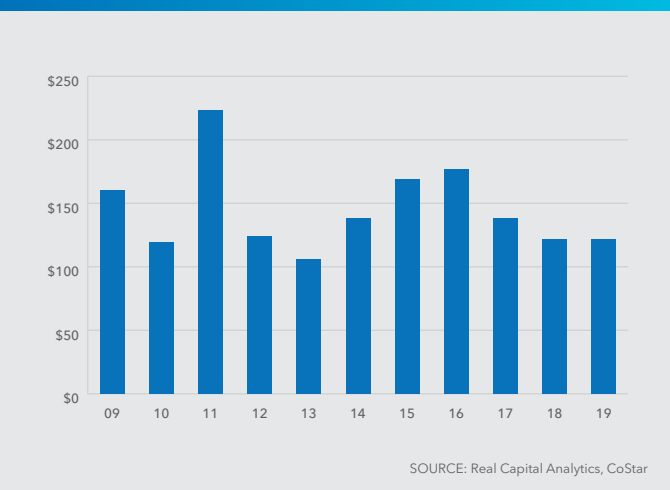
Will Growth Continue Without Incentives?

The state budget was signed as the quarter ended, but with a glaring omission: no new legislation or extension for the Grow New Jersey and Economic Redevelopment and Growth (ERG) programs. The corporate tax programs, which are under scrutiny due to a lack of oversight, expired on June 30. Companies can still apply for incentives while legislators draft proposals for revisions and new programs. The budget did include items which help downtown developments, including \$31 million for New Jersey Transit and Amtrak infrastructure upgrades. Also, minimum wage is set to increase in most cases in New Jersey by \$1.15 an hour, or 13%, which could impact private sector job growth and possibly reverse the trajectory of the office market.

Average Asking Rental Rates
New Jersey



Average Office Sales PSF
New Jersey



Notable Q2 Lease Transactions

TENANT	DEAL TYPE	ADDRESS	CITY	SF
IBM	Renewal	194 Wood Ave South	Iselin	129,626
IQVIA	Sublease	77 Corporate Drive	Bridgewater	115,500
Genmab US, Inc.	New	777 Scudders Mill Rd	Plainsboro	90,000

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	7,974,978	13.8%	14.4%	0	(81,250)	79,286	\$26.69
Bergen East	11,301,870	8.1%	9.1%	360,000	66,075	302,546	\$28.48
Bergen North	11,687,724	13.2%	13.8%	11,000	(77,941)	(22,131)	\$26.51
Brunswick	5,116,936	11.2%	11.8%	0	13,292	17,704	\$27.81
Edison South	4,211,633	8.2%	8.2%	0	11,260	56,690	\$25.40
Hudson Waterfront	23,666,831	15.6%	16.7%	125,000	(1,586)	(376,850)	\$37.37
Meadowlands	6,635,748	12.9%	17.1%	340,000	(157,416)	(416,451)	\$26.49
Monmouth East	13,780,570	7.9%	9.3%	45,200	27,574	329,213	\$25.83
Monmouth West	3,654,680	6.5%	6.5%	22,912	15,760	66,406	\$21.77
Morris West	3,882,254	35.6%	35.9%	0	(8,249)	(48,295)	\$22.55
Morristown Region	12,214,949	16.5%	18.8%	0	(91,928)	(99,811)	\$29.10
Newark/Urban Essex	20,267,432	15.4%	15.8%	165,000	117,334	188,897	\$29.37
Parsippany Region	19,470,772	17.4%	22.0%	64,000	177,398	405,127	\$29.14
Princeton Area	36,001,040	11.5%	13.3%	60,000	210,125	282,711	\$26.35
Route 280/Suburban Essex	12,414,166	11.5%	11.9%	0	(28,238)	5,999	\$25.97
Route 287 South	11,107,452	15.1%	17.1%	0	(44,564)	(70,082)	\$20.16
Short Hills/Millburn	4,684,027	2.8%	4.3%	0	(7,939)	41,661	\$33.59
Somerset/I-78 East	23,412,636	10.4%	13.8%	0	259,392	303,729	\$27.36
Union/Parkway	6,150,741	9.8%	10.1%	0	47,073	161,025	\$25.57
Wayne/Paterson	10,673,308	18.4%	18.6%	0	249,294	397,596	\$23.04
Woodbridge/Metro Park	7,068,160	12.5%	13.1%	0	(14,837)	24,020	\$31.84
TOTAL	255,377,907	13.1%	14.7%	1,193,112	680,629	1,628,990	\$27.22

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	149,144,852	13.1%	15.0%	720,200	421,990	977,394	\$29.41
Class B	106,233,055	12.9%	13.7%	472,912	258,639	651,596	\$23.43
TOTAL	255,377,907	13.1%	14.7%	1,193,112	680,629	1,628,990	\$27.22

SOURCE: CoStar, Transwestern

CONTACT

Matt Dolly

Director of Research
973.947.9244
matthew.dolly@transwestern.com

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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