IMPROVED LEASING AND DECLINING SUBLEASE AVAILABILITY SIGNAL BEGINNING OF RECOVERY

FIGURES | NORTHERN AND CENTRAL NEW JERSEY OFFICE | Q3 2021

▲ 19.4%
Availability Rate

▲ -.55M
Sq. Ft. Net Absorption

▲ 1.3M
Sq. Ft. Leasing Velocity

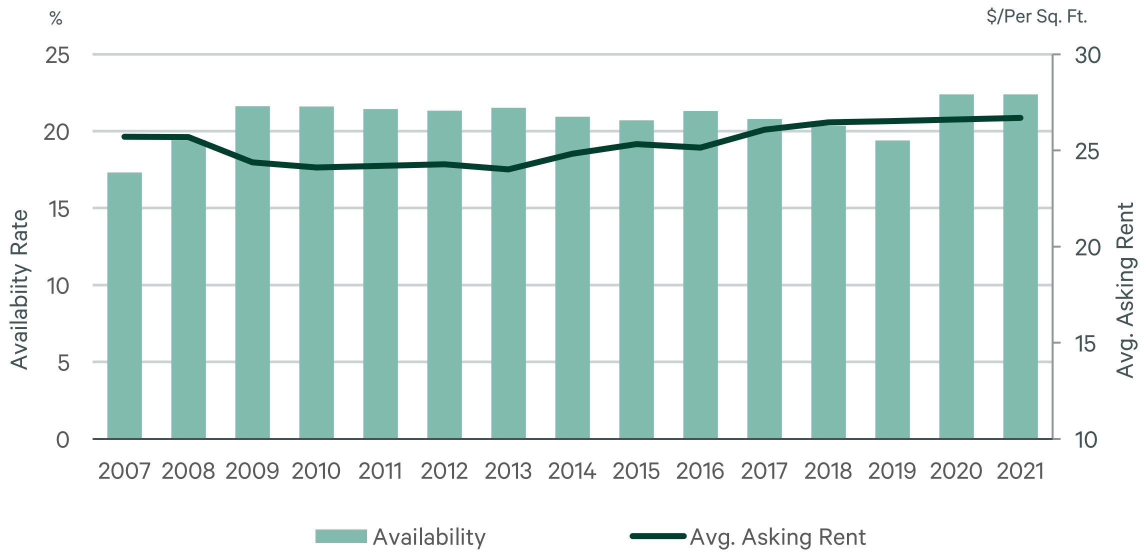
▶ $27.55
Lease Rate Per Sq. Ft.

Note: Arrows indicate change from previous quarter.

The Northern and Central New Jersey office market continued its slow improvement with emerging signals that the worst of COVID-19's effects on the market are over. This was the second consecutive quarter with an increase in quarterly leasing activity, the first instance since COVID-19's onset. Leasing activity totaled 830,000 sq. ft.—17% above Q2 2021 but below the five-year quarterly average by 43%.

On the supply side, sublease net absorption was positive 243,000 sq. ft. with withdrawals of 580,000 sq. ft. in the quarter, the third consecutive quarter of increasing sublease withdrawals. Overall net absorption was negative 554,000 sq. ft., but Q3 marked the third consecutive quarter of increasing overall net absorption. The availability rate increased 30 basis points (bps) of 24.6%, the smallest increase since the beginning of COVID-2019. Average asking rent was virtually unchanged quarter-over-quarter and year-over-year at $27.55 per sq. ft.

FIGURE 1: Historical Availability and Asking Rent



Source: CBRE Research, Q3 2021

Economic Overview

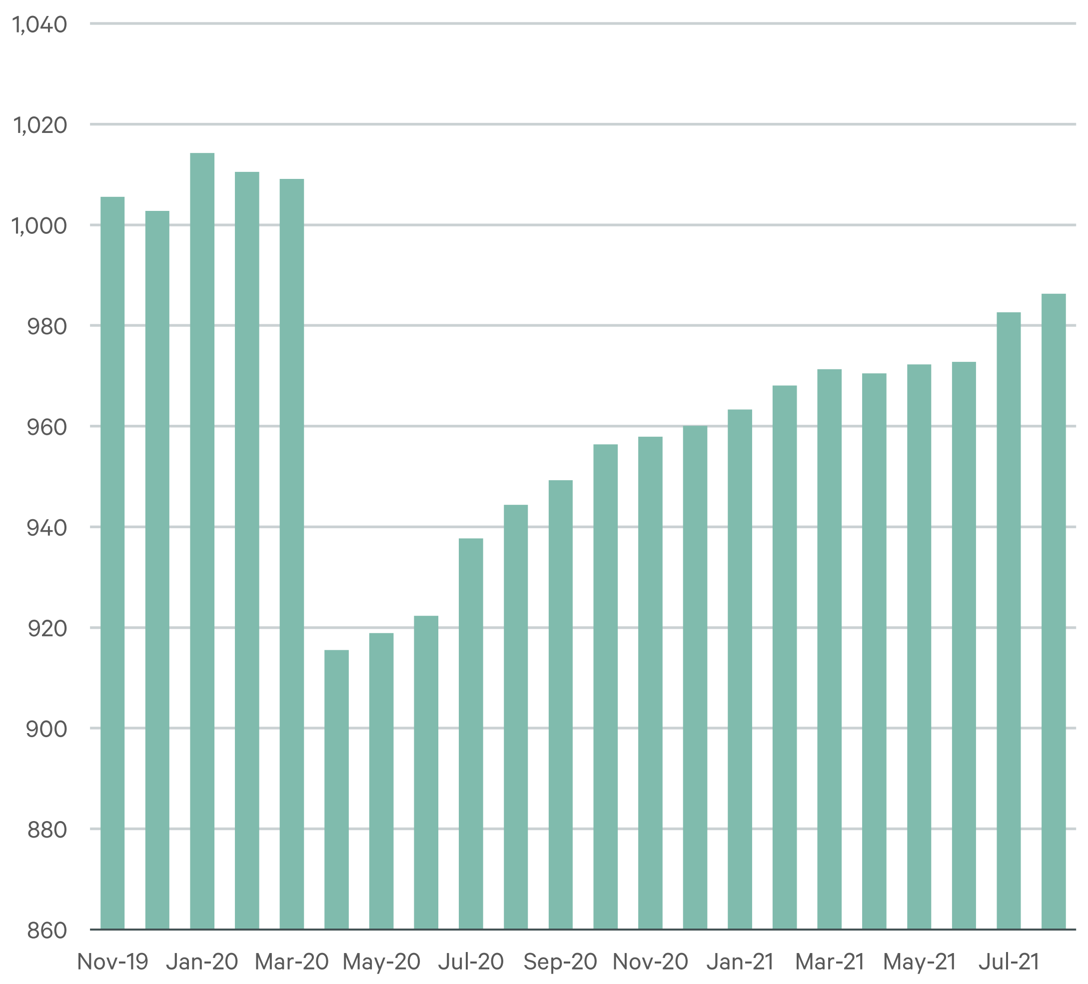
The summer of 2021 began with a surge of economic activity and employment gains, only to ease back as the Delta variant forced many consumers to rethink their holidays and restaurant visits. Consequently, CBRE pared back the GDP growth outlook for 2021 by an entire percentage point, to 6%, followed by nearly 4% year-on-year growth in 2022. New Jersey fared decently as the summer closed out, continuing to regain workers, albeit at a slower pace than in previous months, in part thanks to lower virus transmission rates.

Despite nationwide volatility in the food and accommodate sectors, New Jersey's hotels and restaurants continued to reabsorb workers. Leisure and hospitality employers in New Jersey kept hiring in August, bringing the sector's employment to 80.6% of its pre-Covid level. Office-using employment, too, gained headcount in August, rising to 98.1% of the state's pre-Covid level. The gains were largely driven by the professional and businesses services sector.

New Jersey's overall unemployment rate continues to improve but remains elevated at 7.2%, considerably down from its peak of 16.6% in August 2021, but above the national unemployment rate of 5.2%

COVID-19 related global supply chain stress and the long lead time needed for renovation permitting due to limited inspection personnel have led office occupiers to engage the market well advance of their lease expiration dates. This will lead to more competition in the market as demand is pushed forward .

FIGURE 2: New Jersey Office Using Employment (Thousands)



Source: BLS

Leasing Activity

Leasing activity ticked up again in Q3 2021 to 830,000, sq. ft., increasing 16% from the previous quarter and up over 100% from the COVID-19 low of 400,000 in Q2 2020. Despite this rise, leasing activity remained 55% below the five-year quarterly average.

The Parsippany submarket in Northern New Jersey was the most active submarket in the second quarter, recording 244,975 sq. ft. in new leases, the most since Q3 2018. Leasing in the submarket was driven by Cigna Healthcare signing a 195,000 sq. ft. lease at 115 Tabor Rd in Morris Plains.

The Waterfront and Route 287/78 Interchange submarkets also had strong leasing activity of 120,000 sq. ft. and 100,000 sq. ft., respectively – both surpassing leasing totals from the previous quarter. The Waterfront's leasing activity was propelled by Roar Digital's 49,000 sq. ft. lease at Two Harborside Financial Center in Jersey Cit. Meanwhile, Hikma Pharmaceuticals USA's 49,500 sq. ft. lease at 33 Technology Dr. in Warren led the way for Route 287/78 Interchange's total. The Morristown submarket also saw improvement in leasing activity quarter-over-quarter of 100% to 42,500 sq. ft., due in part to Beyond Spring Pharmaceuticals lease at 100 Campus Dr. in Florham Park.

Renewals, which are not included in leasing activity, made up 37% of total velocity at 480,000 sq. ft. The Princeton submarket lead the quarter in renewals with 113,000 sq. ft. Three deals made up the bulk of that total; Conduent's 43,000 sq. ft. renewal at 200 American Metro Blvd. and Selective Insurance Group's 31,000 sq. ft. renewal at 200 Clocktower Dr., both in Hamilton, along with Systech's 30,000 sq. ft. renewal at 214 Carnegie Center in West Windsor. Samsung recorded the largest renewal during the quarter of 84,000 sq. ft. at 105 Challenger Rd in Ridgefield Park.

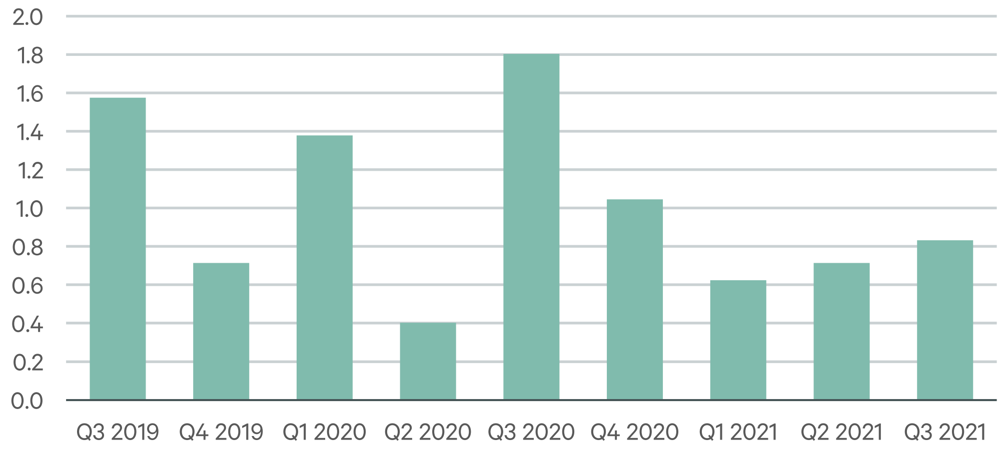
Health care and life science remain the most active industries in the market. Healthcare and life science companies were responsible for 40% of the top 25 leases sq. ft. this quarter and 46% of the lease total in Q2 2021.

FIGURE 3: Top Lease Transactions, Q3 2021

Tenant	Building	Size (SF)	Transaction Type
CIGNA	115 Tabor Road	195,000	Direct
Samsung Electronics	105 Challenger Road	84,213	Renewal
Hikma Pharmaceuticals	33 Technology Drive	49,539	Direct
Roar Digital	2 Harborside Financial	49,043	Direct
Conduent Inc.	200 American Blvd.	42,988	Renewal
Spencer Savings Bank	611 River Drive	41,499	Renewal

Source: CBRE Research, Q3 2021

FIGURE 4: Office Leasing Activity (Million Sq. Ft.)



Source: CBRE Research, Q3 2021

Net Absorption and Availability

Net absorption in Q3 2021, while still negative, improved quarter-over-quarter. The combined Northern and Central New Jersey market registered negative 500,000 sq. ft., the third straight quarterly absorption improvement. Even though this marked the sixth consecutive quarter with a negative total, absorption has improved for three consecutive quarters. The quarter's negative absorption resulted in an increase in the availability rate to 24.6%, 30 basis points (bps) higher quarter-over-quarter, but also the smallest increase since the beginning of the pandemic.

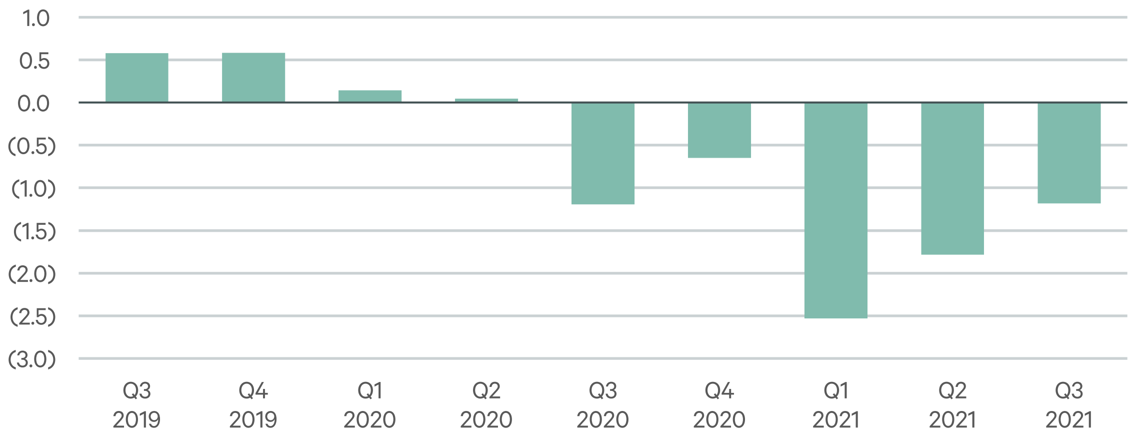
Availability rates increased in 11 of the 20 individual submarkets. The biggest quarterly increase occurred in the Route 23/Paterson/Wayne submarket where availability grew by 220 bps to 28.1%, due to over 120,000 sq. ft. of new sublet availability at 100 Metro Blvd in Nutley.

The availability rate in the Parsippany submarket increased 160 bps to 34%. Two major direct space additions at 2 Gatehall Dr. and 1 Sylvan Way totaling 119,000 sq. ft. precipitated the increase.

The sublease availability rate improved in Q3 2021 for the first time since the start of 2020. Positive sublease absorption of 243,000 sq. ft. led to a decrease in the sublease availability rate of 20 bps to 4.7%. The positive sublease absorption was a result of only 400,000 sq. ft. of sublease space added to the market, while 580,000 sq. ft was withdrawn and 63,000 sq. ft. was subleased. Sublease withdrawals have increased for three consecutive quarters.

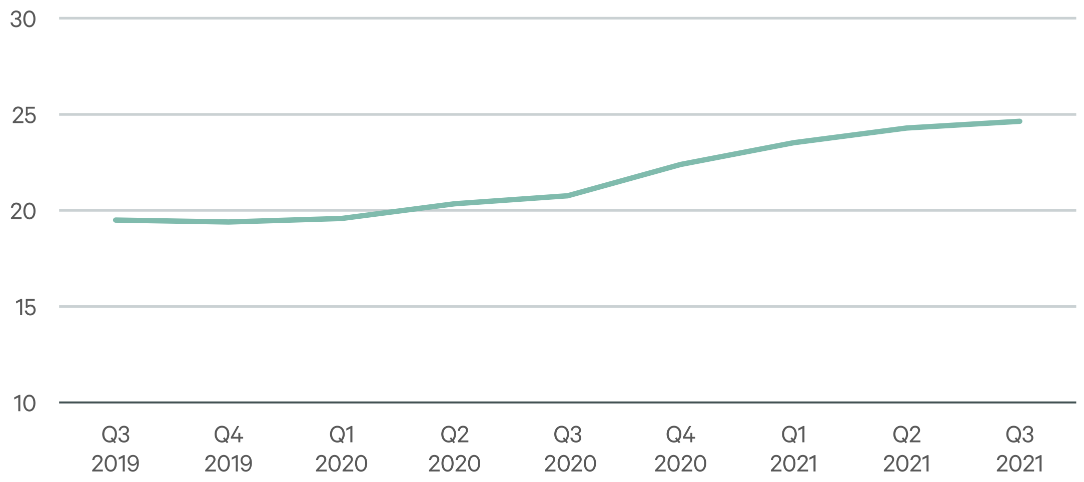
As office availability and vacancy rates remain elevated and the industrial and multifamily markets soar in New Jersey, developers have become increasingly interested in to repurposing their assets to their highest and best use. CBRE has identified more than 8.6 million sq. ft. of office assets that are slated to be redeveloped which will compress office availability and vacancy rates while raising rents.

FIGURE 5: Net Absorption (Million Sq. Ft.)



Source: CBRE Research, Q3 2021

FIGURE 6: Availability Rate (%)



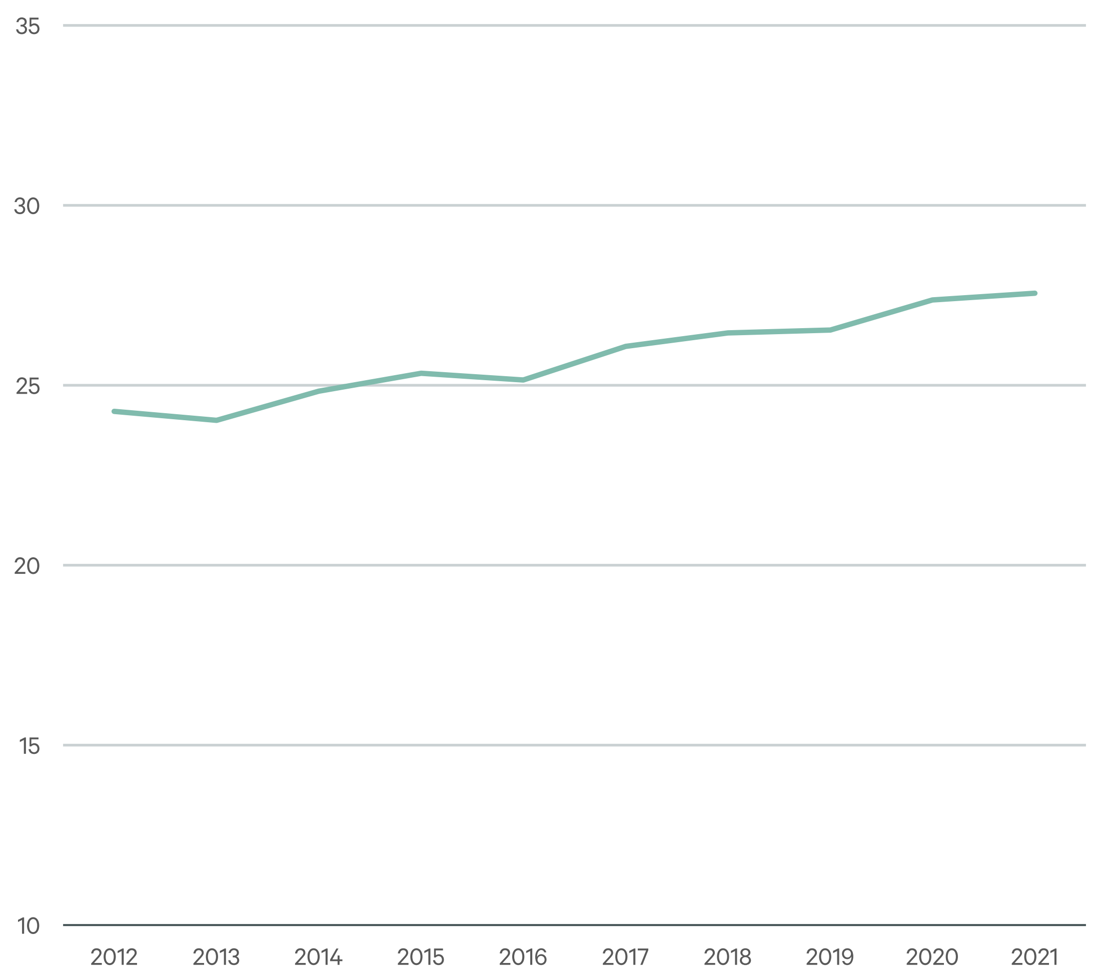
Source: CBRE Research, Q3 2021

Rent Trends

New Jersey's average asking lease rate was virtually unchanged quarter-over-quarter at $27.55 per sq. ft. Even though supply additions started to slow down in Q3 2021, rents have ticked up 1.0% year-over-year. Higher priced product has entered the market, primarily in the Northern New Jersey region, which has been tempered by cheaper space additions in Central NJ and sublease availability. Average asking rent in Northern New Jersey was $28.08 per sq. ft.—virtually unchanged quarter-over-quarter and up 1.3% year-over-year. Central New Jersey's average asking rent was $26.70 per sq. ft., essentially flat quarter-over-quarter and year-over-year. While asking rents have shown little movement, , landlords have continued to entice quality occupiers with generous incentive packages for large and long-term deals.

Two New Jersey submarkets, Route 287/78 Interchange and Chatham/Millburn/Short Hills, saw material increases in asking rents quarter-over-quarter. The average asking rent in Route 287/78 Interchange submarket rose 4.1% to $26.54 per sq. ft. as over 31,000 sq. ft. of lower-priced sublease space was withdrawn at 500 Somerset Corporate Boulevard in Bridgewater. Average asking rent in the Chatham/Millburn/Short Hills submarket increased 1.6% quarter-over-quarter to $44.40 per sq. ft., as there was a small availability added at 51 JFK Parkway in Short Hills asking $56.00 sq. ft.

FIGURE 7: Average Asking Lease Rates ($/Per Sq. Ft.)



Source: CBRE Research, Q3 2021

Investment Sales

Total investment sales volume in Q3 2021 decreased 54% quarter-over-quarter and 49% lower year-over-year to $334.4 million. The average price per sq. ft. of office properties sold in Q3 was $148 per sq. ft., a 13% decrease quarter-over-quarter and 16% lower year-over-year.

The largest portfolio sale in the quarter was the 537,000-sq.-ft. sale of 435, 465, 475 South St. in Morristown by Harrison Street Capital to Healthpeak Properties for $147 million ($274 per sq. ft.) Atlantic Health signed long term renewals for the entirety of the properties in Q2 2021, ensuring a stable long-term revenue stream for the buyer.

The second largest portfolio sale was 600 and 700 Alexander Park in Princeton by BentallGreenOak to The Birch Group for $47.3 million ($222 per sq. ft.). 600 Alexander Park is fully leased to Mathmatica, which has approximately seven years left on its lease. 700 Alexander Park is 70% occupied and has Robert Half, Buchanan Ingersoll, and BASF as tenants.

400 Atrium Dr. in Somerset was sold during the quarter as part of the increasing trend of repurposing vacant office building to industrial and residential uses to fill demand in those strong markets. The 348,000 sq. ft. building will be vacated and raised and two Class A warehouses of 294,000 and 132,000 sq. ft. will be built on the land. The property was purchased by Woodmont Properties from EverWest Real Estate Investors for $42.7M.

FIGURE 8: Top Sales Transactions

Address	City	Size (Sq. Ft.)	Price	Price/SF
435 South St	Morristown	190,000	$56,200,000	$296
475 South St	Morristown	210,000	$53,699,900	$256
400 Atrium Dr	Somerset	347,555	$40,632,094	$117
465 South St	Morristown	137,000	$37,100,000	$271
600 Alexander Park	Princeton	141,176	$31,334,169	$222
7 Giralda Farms	Madison	236,809	$29,000,000	$122
700 Alexander Park	Princeton	71,934	$15,965,831	$222

Source: CBRE Research, Q3 2021

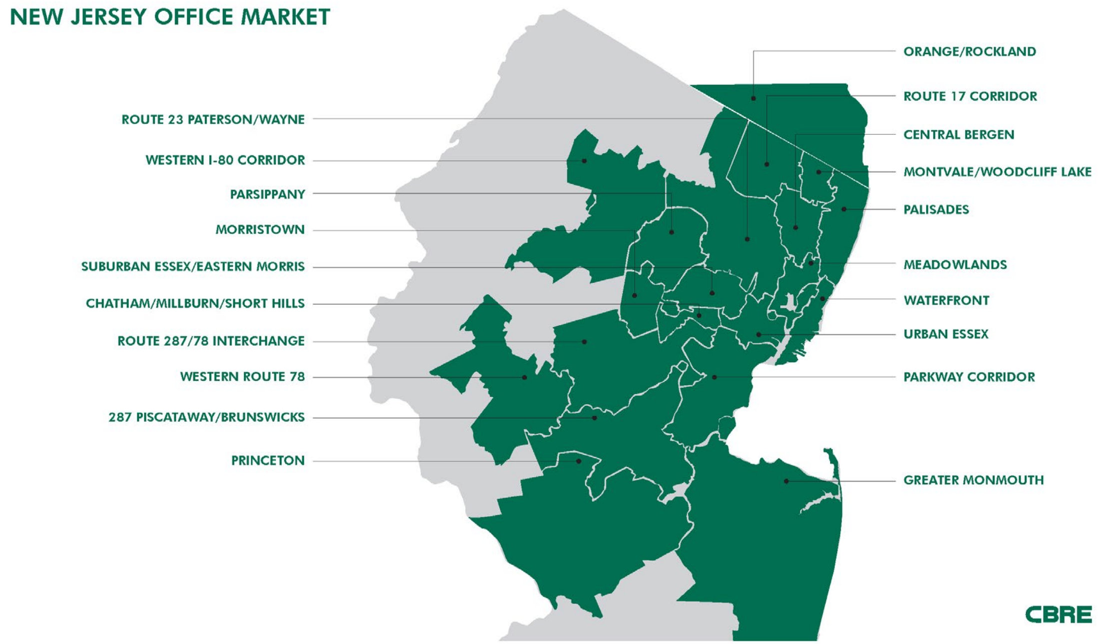
Source: CBRE Research, Q3 2021

FIGURE 19: Submarket Statistics

Submarket	Market Rentable Area (SF)	Availability (SF)	Availability Rate (%)	Avg. Asking Lease Rate ($/SF/Yr)	*Leasing Velocity (SF)	Net Absorption (SF)	YTD Net Absorption (SF)
Orange/Rockland	2,553,775	615,248	24.1%	$22.20	6,207	0	(11,599)
Palisades	4,954,413	1,102,800	22.3%	$32.64	104,162	95,841	(131,451)
Montvale/Woodcliff Lake	3,422,171	1,329,994	38.9%	$25.58	4,545	(56,125)	(223,967)
Route 17 Corridor	2,849,764	801,184	28.1%	$23.74	0	(20,346)	(25,718)
Central Bergen	5,770,777	1,279,378	22.2%	$26.54	88,151	(28,956)	(124,478)
Route 23/Paterson/Wayne	5,808,886	1,632,522	28.1%	$21.28	0	(129,395)	(258,600)
Waterfront	18,974,566	4,351,728	22.9%	$42.22	178,934	65,719	(208,008)
Meadowlands	5,085,157	1,335,711	26.3%	$26.45	13,489	3,823	(53,563)
Newark	12,935,510	2,459,535	19.0%	$29.80	70,280	(48,123)	(347,763)
Suburban Essex/Eastern Morris	8,397,048	1,458,255	17.4%	$24.67	71,458	(1,775)	(13,095)
Parsippany	13,886,990	4,719,303	34.0%	$27.46	281,445	(223,595)	(678,303)
Morristown	8,957,549	2,409,898	26.9%	$28.68	52,042	(28,238)	(303,619)
Western I-80 Corridor	710,980	260,114	36.6%	$22.69	0	0	(24,673)
Chatham/Millburn/Short Hills	899,881	346,245	38.5%	$44.40	19,791	14,536	(45,584)
Northern New Jersey Total	**95,207,467**	**24,101,915**	**25.3%**	**$28.08**	**890,504**	**(356,634)**	**(2,450,421)**
Parkway Corridor	9,442,034	1,821,168	19.3%	$32.11	25,263	(48,947)	(252,059)
Route 287/78 Interchange	19,946,210	4,779,397	24.0%	$26.54	133,837	(118,432)	(690,690)
Western Route 78	2,434,350	1,251,469	51.4%	$19.21	0	0	(3,359)
Route 287/Piscataway/Brunswicks	8,266,005	2,077,719	25.1%	$20.59	59,593	8,605	89,757
Greater Monmouth County	5,011,672	1,234,575	24.6%	$26.86	57,153	26,363	(55,336)
Princeton	15,500,244	3,126,947	20.2%	$27.78	148,040	(64,547)	(157,356)
Central New Jersey Total	**60,600,515**	**14,291,275**	**23.6%**	**$26.70**	**423,886**	**(196,958)**	**(1,069,043)**
New Jersey Total	**155,807,982**	**38,393,190**	**19.4%**	**$27.55**	**1,314,390**	**(553,592)**	**(553,592)**

Source: CBRE Research, Q3 2021

Market Area Overview



DEFINITIONS

Availability Space that is being actively marketed and is available for tenant build-out within 12 months. Includes space available for sublease as well as space in buildings under construction

Asking Rent Weighted average asking rent

Leasing Activity Total amount of sq. ft. leased within a specified period of time, including pre-leasing and purchases of space for occupancy, excluding renewals

Leasing Velocity Total amount of sq. ft. leased within a specified period of time, including pre-leasing and purchases of space for occupancy, including renewals

Net Absorption The change in the amount of committed sq. ft. within a specified period of time, as measured by the change in available sq. ft.

Taking Rent Actual, initial base rent in a lease agreement

T.I. Tenant Improvements

Vacancy Unoccupied space available for lease

Contacts

Nicole LaRusso
Director, Research & Analysis
+1 212 984 7188
Nicole.LaRusso@cbre.com

Brian Klimas
Field Research Manager
+1 201 712 5633
Brian.Klimas@cbre.com

Erica Morano
Senior Field Research Analyst
+1 732 509 2800
Erica.Morano@cbre.com

Michael Philibosian
Research Data Analyst
+201 712 5632
Michael.Philibosian@cbre.com

CBRE