

## New Jersey Office, Q1 2019

# Leasing activity flat as life sciences firms shine

Leasing Activity  
1.55 MSF

Net Absorption  
-150,421

Availability Rate  
20.1%

Average Asking Lease Rate  
\$26.21PSF

\*Arrows indicate change from previous quarter

- Life sciences companies were the main driver of leasing activity in the first quarter. The overall 1.5 million sq. ft. leased was 38% higher than the first quarter last year.
- The availability rate continues to decline in small increments, ending the first quarter at 20.1%. This represented a drop of 30 basis points (bps) compared to the prior quarter.
- After two consecutive quarters of positive momentum, net absorption turned negative in the first quarter. Absorption was more than 430,000 sq. ft. below Q4 2018.
- Following two successive quarters in which the average asking lease rate increased, the rate declined slightly in the first quarter to \$26.21 per sq. ft., the same as a year earlier.
- While the U.S. unemployment rate fell to 3.8% in February, the New Jersey rate held constant at 4.0%, a 50-bps improvement over the same month last year.

## MARKET OVERVIEW

Buoyed by a flurry of new leasing by life sciences companies and law firms, the first quarter got off to a good start, with activity increasing by 38% over the same quarter a year earlier and matching Q4 2018. The 1.5 million sq. ft. of space leased represented the strongest first quarter the New Jersey office market has seen since 2014.

Another bright spot was the availability rate, which has trended downward since 2016. The availability rate ended the first quarter at 20.1%, 30 basis points (bps) below Q4 2018 and down 110 bps since the second quarter of last year.

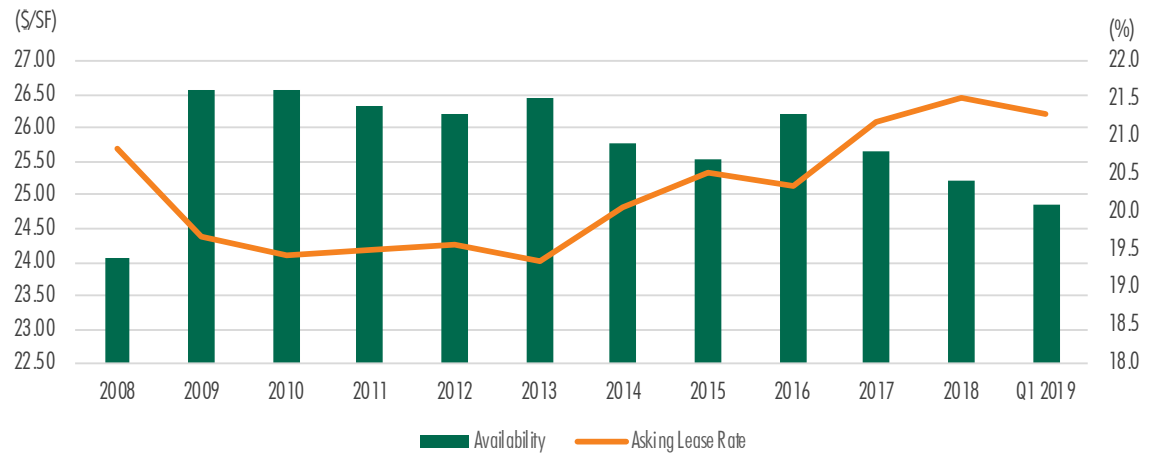
Despite the strong leasing, following two consecutive quarters of positive net absorption, the market slipped into the red in the first quarter, registering 150,000 sq. ft. of negative absorption. In addition, after increasing for two consecutive quarters, the average asking lease rate fell by \$0.24 per sq. ft. quarter over quarter to \$26.21, the same as Q1 2018.

Figure 1: Q1 2019 Notable Transactions

Size (sq. ft.)	Tenant	Address	City	Type
186,790	SubCom	250 Industrial Way West	Eatontown	Renewal
147,645	Celularity, Inc.	180 Park Ave. (Building 104)	Florham Park	New lease
67,747	Amarin Pharmaceuticals	440 Route 22	Bridgewater	New lease
58,180	SK Biopharmaceuticals	461 From Road	Paramus	New lease
55,893	Ricoh Company, Ltd.	2 Gatehall Drive	Parsippany	New lease

Source: CBRE Research, Q1 2019.

Figure 2: Historical Availability Rates vs. Average Asking Lease Rates



Source: CBRE Research, Q1 2019.

### ECONOMY

According to the U.S. Bureau of Labor Statistics, the national unemployment rate fell to 3.8%, a drop of 20 basis points (bps) between January and February, and 30 bps year-over-year. New Jersey's unemployment rate held steady at 4.0% compared to January, but was down 50 bps over February 2018.

After four consecutive months of gains, the state's employment fell slightly in February. Total non-farm wage and salary employment declined by 7,700 jobs in February to a seasonally adjusted level of nearly 4.2 million. Despite the decrease, that total was the second highest on record. Year-over-year, employment in New Jersey increased by 33,000 jobs, with gains recorded in both the private (+30,600) and public (+2,400) sectors. Since the low point of the recession in February 2010, New Jersey's private sector employers have added over 390,000 jobs.

New Jersey office-using employment\* fell slightly month-over-month in February—from 991,200 to 989,900. The decline was marginally larger year-over-year, with office-using employment falling by 4,700 jobs. In both instances, decreases in

information technology and financial services accounted for most of the reductions. Business and professional services strengthened, with a month-over-month gain of 1,000 jobs. This sector also increased by 5,200 jobs year-over-year.

### NEW JERSEY MINIMUM WAGE

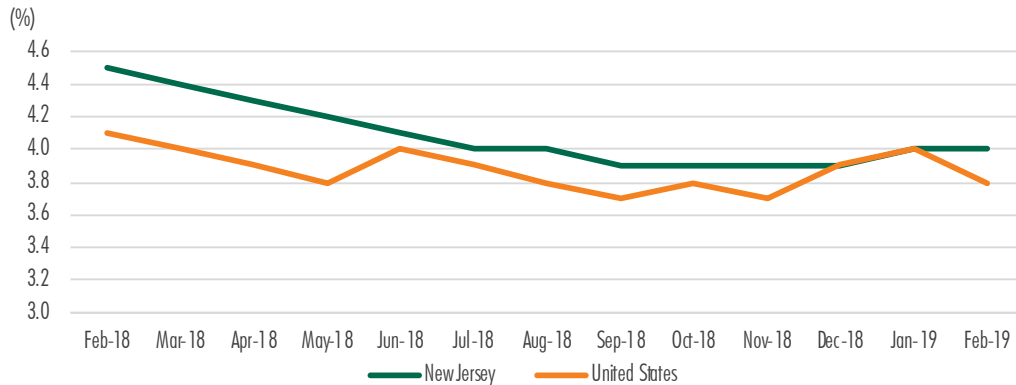
New Jersey became the fourth state—after California, Massachusetts and New York—to pass legislation that would significantly increase the minimum wage, which presently stands at \$8.85 per hour. Under the bill, the schedule for wage increases for most workers is as follows:

- \$10.00 on July 1, 2019
- \$11.00 on January 1, 2020
- \$1.00 increase every subsequent January 1, until reaching \$15.00 in 2024
- Wage increases would then be tied to the consumer price index for all urban wage earners and clerical workers, or CPI-W, taking effect on the first of every year.

While the higher minimums may have a greater direct impact on the industrial market, it will be interesting to see if there will be any consequences for the office market.

\*Information, Financial Activities, and Business and Professional Services.

Figure 3: Monthly Unemployment



Source: NJ Department of Labor, Q1 2019.

Figure 4: Office-Using Employment

	Feb. 2019	Jan. 2019	Feb. 2018	Mo.-Mo. Change	Yr.-Yr. Change
Information	67,100	67,600	71,600	-4,000	-4,500
Financial Activities	245,500	247,300	250,900	-3,600	-5,400
Professional & Business Services	677,300	676,300	672,100	4,200	5,200
Total	989,900	991,200	994,600	-3,400	-4,700

Source: NJ Department of Labor, Q1 2019.

## LEASING

Leasing activity for the first quarter of 2019 reflected virtually no change from the preceding quarter, although it was up by 38% from the same quarter a year earlier. At the same time, first quarter leasing essentially matched the average for the past six quarters, missing by just 8,000 sq. ft. The 1.5 million sq. ft. of activity also represented the strongest first quarter the New Jersey office market has recorded since 2014. In addition, despite a quarter-over-quarter decline in square feet renewed, the first quarter evidenced the highest amount of velocity since Q4 2017 (see Figure 7).

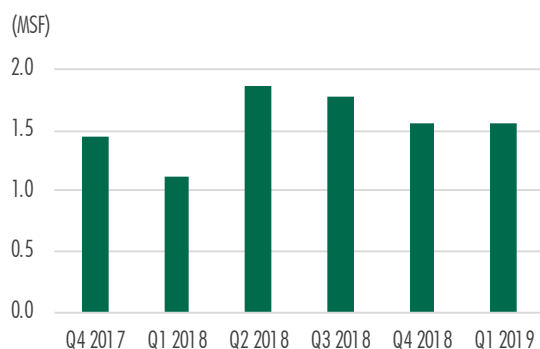
More than two-thirds of the leasing activity, just under 1.1 million sq. ft., took place in the northern New Jersey cluster. The Morristown and Central Bergen submarkets registered the highest volumes, 258,000 sq. ft. and 205,000 sq. ft., respectively. Parsippany also had a good showing

at 186,000 sq. ft., a significantly better result than in the previous quarter. Leasing activity in the Waterfront market fell from 388,000 sq. ft. to 147,000 sq. ft., but still posted the fifth-highest total of any submarket. In central New Jersey, the Route 287/78 Interchange recorded far and away the highest level of activity at 176,000 sq. ft., marginally higher than in Q4 2019.

As seen in Figure 8, below—considering leases of at least 25,000 sq. ft. signed in the first quarter—activity was driven by the life sciences industry (biotechnology and pharmaceutical firms combined) with 37% of the total volume. In fact, as shown in Figure 1, three of the top five leases for the quarter—Celularity (147,645 sq. ft.), Amarin Pharma (67,747 sq. ft.) and SK Biopharmaceuticals (58,180 sq. ft.)—were transacted by life sciences companies. Law firms were also active in the market during the first quarter with four of the top 15 transactions,

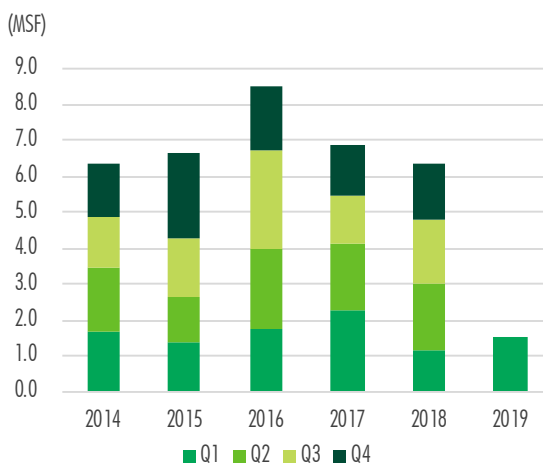
comprising just over 10% of newly leased space. In addition to a diversity of industries, transactions were geographically spread throughout the market, with no single submarket dominating activity.

Figure 5: Quarterly Leasing Activity



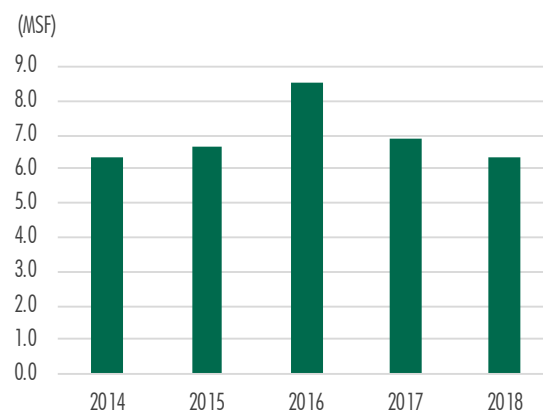
Source: CBRE Research, Q1 2019.

Figure 6: Historical Leasing Activity



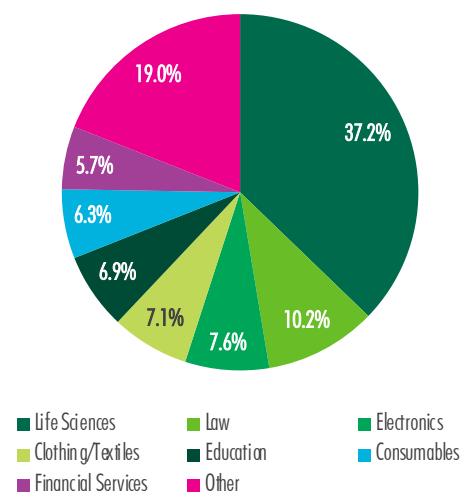
Source: CBRE Research, Q1 2019.

Figure 7: Quarterly Leasing Velocity



Source: CBRE Research, Q1 2019.

Figure 8: Leasing Activity by Industry (25,000 sq. ft. and Greater)



Source: CBRE Research, Q1 2019.



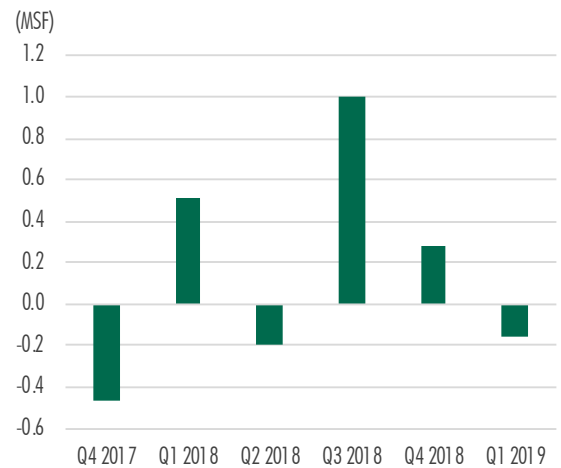
**NET ABSORPTION**

Absorption fell into the red this quarter—aside from 2016, this is the first negative start to the year since 2012. Following two consecutive quarters of positive absorption to end 2018, the market ended with 150,421 sq. ft. of negative absorption for Q1 2019. The total space absorbed was 434,000 sq. ft. less than in Q4 2018 and 650,000 sq. ft. below the same quarter a year earlier.

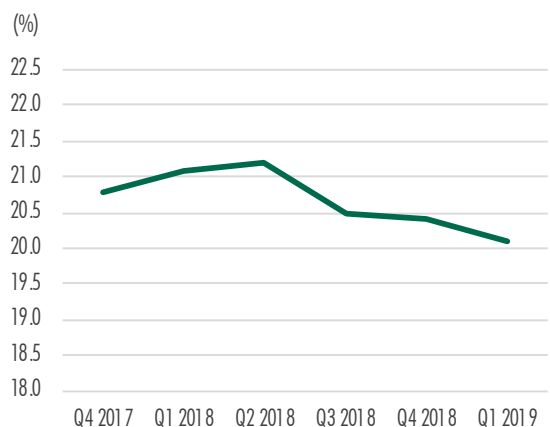
All the quarter's negative net absorption occurred in the northern New Jersey submarket cluster, which registered negative 290,000 sq. ft., nearly 160,000 sq. ft. less than the preceding quarter. Of the 10 largest blocks of space added to the market in the first quarter, eight were in northern New Jersey, including 240,000 sq. ft. at 185 Tabor Road in Morris Plains. The negative net absorption was offset in part however, by the central New Jersey submarket cluster which ended the quarter with close to 140,000 sq. ft. on the positive side of the ledger. Several submarkets stood out, especially Newark, with 351,000 sq. ft. of positive absorption. This followed a strong performance in the fourth quarter of 2018, when the Newark submarket posted a nearly identical 344,000 sq. ft. of positive absorption. Princeton, with more than 300,000 sq. ft. of positive absorption and Route 23/Paterson/Wayne with just under 290,000 sq. ft. of absorption, ranked second and third for the first quarter. Overall, exactly half the submarkets recorded positive absorption for Q1 2019.

The availability rate, which has consistently trended downward since Q2 2018—and more generally since 2016—ended the first quarter at 20.1%, 30 basis points (bps) below Q4 2018 and 110 bps since the second quarter of last year. While these are not significant declines, the slow and steady progress has been encouraging. It should be noted too, that the anomaly of negative net absorption coupled with a decline in availability can be explained in part by adjustments, as properties that are converted to other uses are removed from the overall inventory.

Among the submarkets, the lowest first quarter availability rates were recorded by Palisades (14.8%), Parkway Corridor (15.3%), Western Route 78 (15.0%), Newark (17.1%) and Greater Monmouth (17.2%). Based on its strong net absorption, Newark's availability rate has declined by 390 bps compared to the first quarter in 2018.

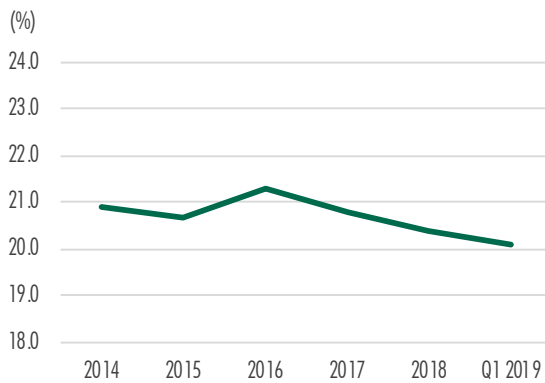
**Figure 9: Quarterly Net Absorption**

Source: CBRE Research, Q1 2019.

**Figure 10: Quarterly Availability**

Source: CBRE Research, Q1 2019.

Figure 11: Historical Availability



Source: CBRE Research, Q1 2019.

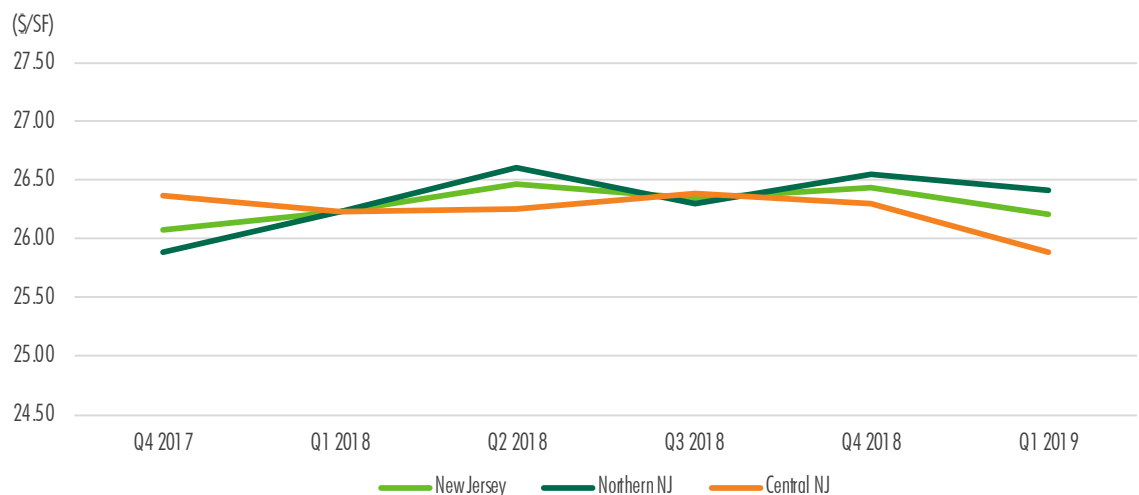
#### AVERAGE ASKING LEASE RATE

The average asking lease rate fell by \$0.24 per sq. ft. compared to the last quarter of 2018, ending at \$26.21 per sq. ft and in line with the rate posted for the same period the year prior. However, compared to the first quarter five years ago, the rate has increased by nearly 7.0% or \$1.62 per sq. ft. This pattern of gradual improvement, punctuated by occasional declines, is reflective of the market's uneven short-term performance, and positive trending over the long term.

At quarter-end, the Northern New Jersey submarket cluster recorded an average asking rate of \$26.42 per sq. ft., while Nentral New Jersey registered a rate of \$25.89. Among the submarkets, as is usually the case, the Waterfront submarket recorded the highest average asking rate, at \$43.89 per sq. ft., followed by Chatham/Millburn/Short Hills with a rate of \$35.38 per sq. ft. In central New Jersey, the Parkway Corridor, which includes Metropark, achieved the highest asking lease rate at \$28.02 per sq. ft., followed by the Route 287/78 Interchange at \$27.28 and Princeton, at \$27.16.

The average rate for Class A buildings in Q1 2019 was \$28.90 per sq. ft. Class B and Class C buildings recorded average lease rates of \$23.69 per sq. ft. and \$19.44, respectively. Waterfront Class A rents reached a new high in the first quarter, reaching \$45.64 per sq. ft. At the same time, Waterfront Class B rents—while not setting a record at \$33.14 per sq. ft.—ended the quarter with their highest average rate since Q4 2017. Over the past five years, Waterfront average asking rents have grown by almost 40%.

Figure 12: Quarterly Asking Lease Rate



Source: CBRE Research, Q1 2019.

**INVESTMENT SALES**
**Figure 13: Q1 2019 Notable Sales Transactions**

Address	City	Size (Sq. Ft.)	Price	Price/SF
570 Washington Boulevard*	Jersey City	430,239	\$164,800,000	\$383.00
300 Kimball Drive	Parsippany	396,702	\$66,000,000	\$166.00
99 Wood Avenue South	Iselin	271,998	\$61,500,000	\$226.00
120 Eagle Rock Avenue	East Hanover	177,820	\$20,850,000	\$117.00
1500 Valley Road	Wayne	101,667	\$19,200,000	\$189.00

Source: CBRE Research, Q1 2019.

\* The property was split into a leased fee and leasehold at the point of sale. The leased fee interest was purchased for \$68.4 million. The sale price net the leased fee interest is \$96.5 million.

Institutional investors were active in select markets in the first quarter, two examples being 570 Washington Boulevard in the Waterfront submarket, acquired by iStar (NYSE: STAR) and 99 Wood Avenue South in the Metropark submarket, acquired by Mack-Cali Realty Corp. (NYSE: CLI). Otherwise, private investors continued to dominate most of the office investment landscape with a focus on value-add properties. However, the supply of these value-add opportunities has started to decline.

Capital investment continues to drive rent growth and leasing activity. Owners who have invested wisely are experiencing positive results from base building and amenity upgrades as they capture improved leasing activity. Two examples in the first quarter that reflect the successful execution of that strategy are 120 Eagle Rock Avenue in East Hanover and 300 Kimball Drive in Parsippany, both outperforming their respective submarkets in experiencing improved occupancy and escalating rents.

One of the more interesting sales of the first quarter was the disposition of the former Toys-‘R’-Us headquarters in Wayne. Off the beaten path, the property exemplifies the legacy large suburban headquarters campus.

Sold vacant, the 191-acre, two-building site traded for just over \$30.00 per square foot, about the same as other large vacant office properties in the market.

Also of note in the first quarter, was the recapitalization of One, Two and Four Gateway Center in Newark by a five-party joint venture between Garrison Investment Group, Axonic Capital LLC, Taconic Capital Advisors, Prudential Financial and Onyx Equities LLC. The price for the three-building complex and its connecting concourses—which link the buildings to Newark Penn Station—was approximately \$300 million\*. Rugby Realty remains the owner of Three Gateway, the fourth building in the complex.

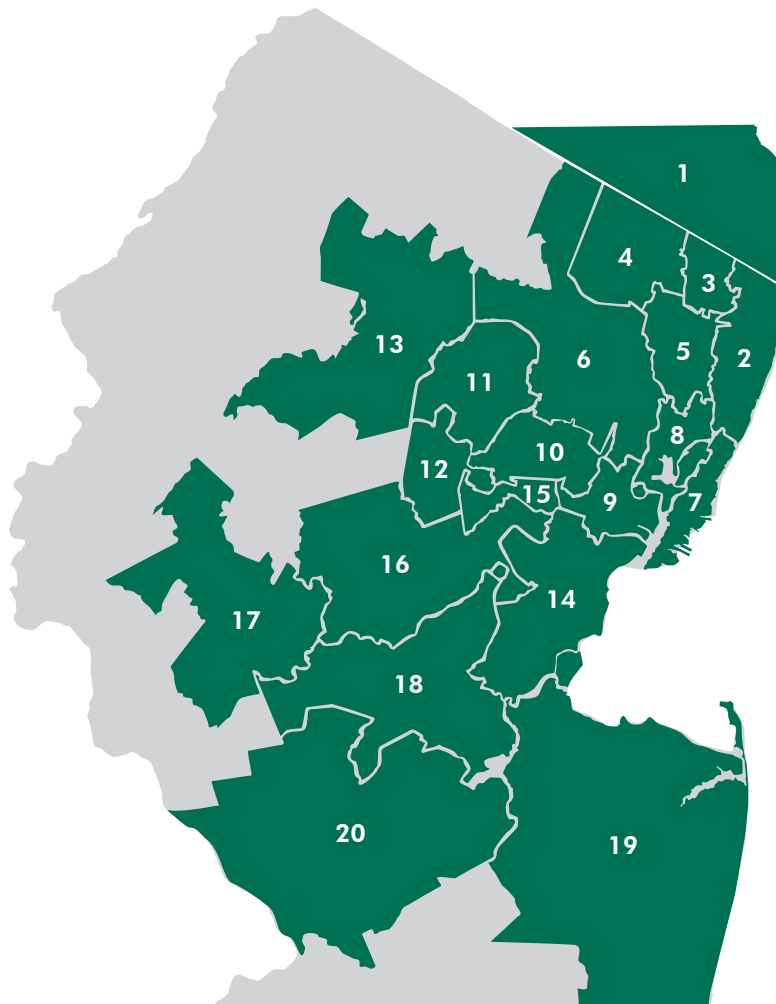
\*Source: Bloomberg, January 11, 2019  
<https://www.bloomberg.com/news/articles/2019-01-11/investors-buy-newark-s-gateway-seeing-path-from-riots-to-rebirth>

**Figure 14: Q1 2019 Market Statistics**

Submarket	Market Rentable Area (SF)	Availability (SF)	Availability Rate (%)	Avg. Asking Lease Rate (\$/SF/Yr)	Leasing Activity (SF)	Net Absorption (SF)	YTD Net Absorption (SF)
Orange/Rockland	2,553,775	579,860	22.7%	\$21.34	6,761	(1,686)	(1,686)
Palisades	5,048,682	744,686	14.8%	\$28.01	16,755	(76,970)	(76,970)
Montvale/Woodcliff Lake	3,422,171	877,570	25.6%	\$27.03	7,874	(395,380)	(395,380)
Route 17 Corridor	2,849,764	571,216	20.0%	\$25.08	12,469	50,291	50,291
Central Bergen	5,770,777	1,174,983	20.4%	\$25.86	205,455	60,224	60,224
Route 23/Paterson/Wayne	5,808,886	1,621,430	27.9%	\$19.28	51,040	288,540	288,540
Waterfront	18,863,866	3,580,856	19.0%	\$43.89	147,404	(74,597)	(74,597)
Meadowlands	5,224,206	973,484	18.6%	\$24.51	48,243	4,196	4,196
Newark	12,935,510	2,207,287	17.1%	\$28.61	63,570	350,597	350,597
Suburban Essex/Eastern Morris	8,397,048	1,510,157	18.0%	\$23.79	64,522	(135,091)	(135,091)
Parsippany	14,011,136	3,877,297	27.7%	\$26.95	186,480	(390,085)	(390,085)
Morristown	8,847,549	1,982,709	22.4%	\$27.99	257,825	151,499	151,499
Western I-80 Corridor	710,980	246,180	34.6%	\$22.75	2,998	(9,358)	(9,358)
Chatham/Millburn/Short Hills	899,881	261,632	29.1%	\$35.38	6,924	(160,035)	(160,035)
<b>Northern New Jersey Total</b>	<b>95,344,231</b>	<b>20,209,347</b>	<b>21.2%</b>	<b>\$26.42</b>	<b>1,078,320</b>	<b>(337,855)</b>	<b>(337,855)</b>
Parkway Corridor	9,442,034	1,441,189	15.3%	\$28.02	68,646	(78,039)	(78,039)
Route 287/78 Interchange	19,419,682	3,680,097	19.0%	\$27.28	175,871	48,289	48,289
Western Route 78	2,434,350	414,083	17.0%	\$19.59	21,262	24,367	24,367
Route 287/Piscataway/Brunswicks	8,266,005	1,708,689	20.7%	\$21.07	40,913	(316,633)	(316,633)
Greater Monmouth County	5,008,161	859,889	17.2%	\$25.31	95,385	158,474	158,474
Princeton	15,500,244	2,968,869	19.2%	\$27.13	66,127	303,306	303,306
<b>Central New Jersey Total</b>	<b>60,070,476</b>	<b>11,072,816</b>	<b>18.4%</b>	<b>\$25.89</b>	<b>468,204</b>	<b>139,764</b>	<b>139,764</b>
<b>New Jersey Total</b>	<b>155,414,707</b>	<b>31,282,163</b>	<b>20.1%</b>	<b>\$26.24</b>	<b>1,546,524</b>	<b>(198,091)</b>	<b>(198,091)</b>

Source: CBRE Research, Q1 2019.

Figure 15: New Jersey Office Submarkets



- |                                   |                                     |
|-----------------------------------|-------------------------------------|
| 1. Orange/Rockland                | 11. Parsippany                      |
| 2. Palisades                      | 12. Morristown                      |
| 3. Montvale/Woodcliff Lake        | 13. Western I-80 Corridor           |
| 4. Route 17 Corridor              | 14. Parkway Corridor                |
| 5. Central Bergen                 | 15. Chatham/Millburn/Short Hills    |
| 6. Route 23/Paterson/Wayne        | 16. Route 287/78 Interchange        |
| 7. Waterfront                     | 17. Western Route 78                |
| 8. Meadowlands                    | 18. Route 287/Piscataway/Brunswicks |
| 9. Newark                         | 19. Greater Monmouth County         |
| 10. Suburban Essex/Eastern Morris | 20. Princeton                       |

## 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.

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## THINGS TO NOTE

The Urban Essex submarket has been rebranded as Newark. As of January 1, 2018, all historical references to the Urban Essex Market have been updated to reflect the Newark name.

All historical average asking rent data for the Waterfront submarket have been revised since original publication, due to a change in data collection protocols that went into effect on January 1, 2018.

Newark absorption for Q1 2018 has been revised to better reflect the state of the market (+400,532 SF).

All historic data relating to leasing activity and leasing velocity have been revised since original publication. The revisions are based on a change in terminology that went into effect January 1, 2018. As of this date, all reports by CBRE Tri-State use the term leasing activity to refer to the total amount of new square footage leased in the market within a specific time period, including all new leases, expansions and all pre-leasing, but excluding renewals. Also, the term leasing velocity is used to refer to all leasing activity and renewals.