

New Jersey Office, Q2 2019

Market Displays Improvement Across Multiple Metrics

Leasing Activity
1.24 MSF

Net Absorption
359,100 SF

Availability Rate
19.9%

Average Asking Lease Rate
\$26.46 PSF

*Arrows indicate change from previous quarter.

- Net absorption improved by more than 500,000 sq. ft. quarter-over-quarter and is now positive for the first half of the year.
- The availability rate fell by 20 bps which was enough to drop it below 20% for the first time since Q4 2008.
- Both the overall average asking lease rate and the Class A rate increased by \$0.25 per sq. ft. quarter-over-quarter. At \$43.79, the Waterfront submarket again posted the highest average of any submarket but was roughly flat compared with the preceding quarter.
- Leasing activity declined both quarter-over-quarter and year-over-over, ending the second quarter at 1.2 million sq. ft.
- Five buildings totaling nearly 1.5 million sq. ft. were under construction as the second quarter ended.
- Office-using employment grew between April and May, while the state's unemployment rate fell for two consecutive months and now stands at 3.8%.

MARKET OVERVIEW

Despite a few headwinds, the New Jersey office market displayed resilience during the second quarter, registering improvement around several key metrics. Chief among the positive numbers was the 359,100 sq. ft. of net absorption, a turnaround of approximately 510,000 sq. ft. from the previous quarter. Net absorption for the first half of 2019 is now a positive 209,000 sq. ft.

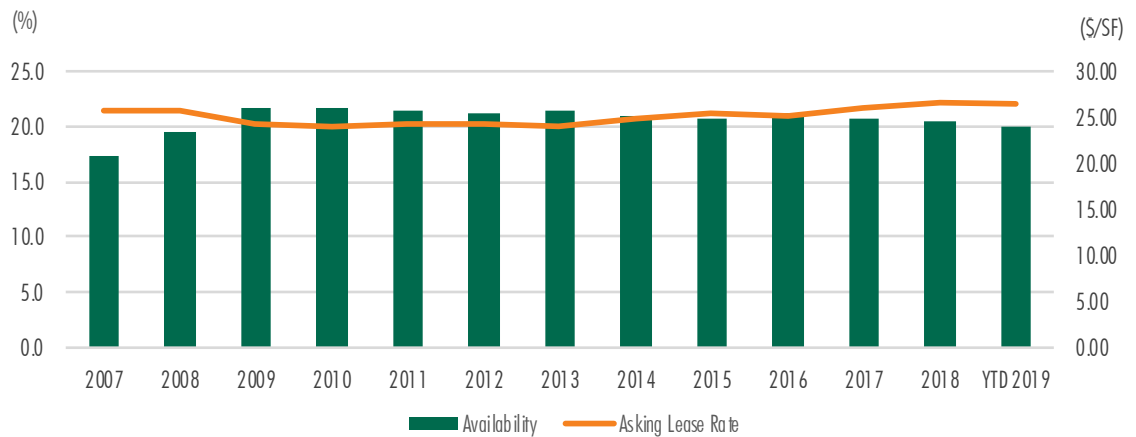
Other improvements were seen in the availability rate and the average asking lease rate. The former fell 20 basis points (bps) quarter-over-quarter to 19.9%, the first time it has dipped below 20% since Q4 2008. At the same time, the average asking lease rate rose \$0.25 per sq. ft. quarter-over-quarter, although it was flat on a year-over-year basis. Leasing activity was down quarter-over-quarter by roughly 307,000 sq. ft., to 1.2 million sq. ft. It was also nearly 630,000 sq. ft. less than the almost 1.9 million sq. ft. leased in Q2 2019.

Figure 1: Q2 2019 Notable Transactions

Size (SF)	Tenant	Address	City	Type
168,795	Confidential	194 Wood Ave. South	Iselin	Renewal
115,658	IQVIA	77 Corporate Dr.	Bridgewater	Sublease
88,000	Genmab A/S	777 Scudders Mill Rd. II	Plainsboro	Lease
80,697	General Services Administration (GSA)	3 Gateway Center	Newark	Lease
62,795	Bohler Engineering	30 Independence Blvd.	Warren Township	Lease

Source: CBRE Research, Q2 2019.

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



Source: CBRE Research, Q2 2019.

ECONOMY

At 3.8%, New Jersey's unemployment rate for May was the lowest recorded since April of 2001. It also marked the second consecutive month in which the rate saw a small decline. This is a positive signal for the economy, given that the state's unemployment rate had either been flat or reflected an increase every month between October 2018 and March of this year.

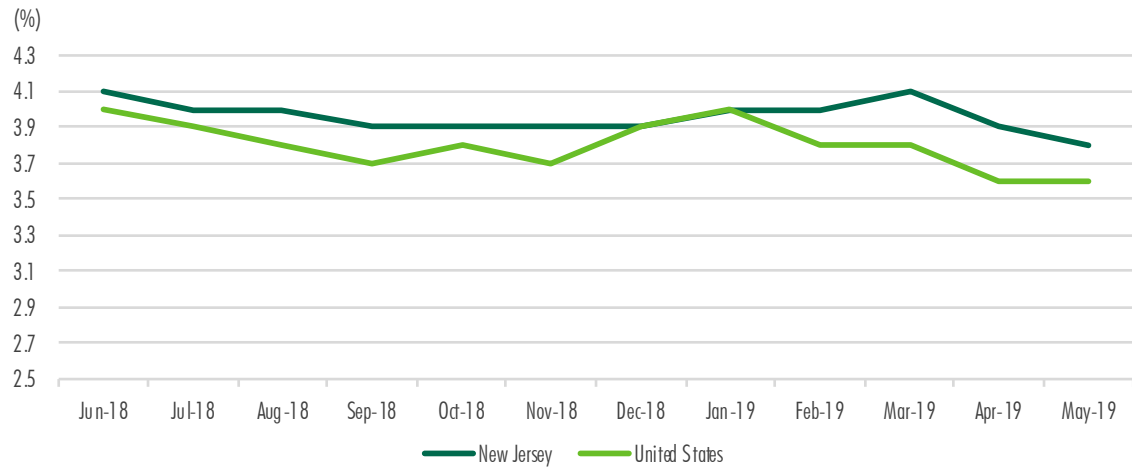
As of May, employment in New Jersey reached 4,193,800, growth of 45,900 jobs year over year, with gains recorded in both the private sector (+ 42,000) and the public sector (+ 3,900). Office-using employment (OUE), however, presented a mixed picture. Total OUE was down 2,300 year-over-year despite a gain of 8,100 jobs in the Business & Professional Services sector and losses of 4,900 and 5,500 in the Information and Financial Activities sectors, respectively. Recently, the trend line seems to be moving in a more positive direction. New Jersey posted an increase of 3,300 OUE from April to May on the strength of gains in both the Business & Professional Services and Financial Activities categories.

NEW JERSEY ECONOMIC INCENTIVES

To date, 2019 has been a disappointing year for New Jersey's economic incentive programs. The Grow NJ program, which offered businesses that created or retained jobs in New Jersey annual tax credits per job and the Economic Redevelopment & Growth (ERG) program, which provided reimbursements of total project costs for commercial projects, both expired at the end of June. The state legislature has voted to extend Grow NJ for seven months, but the governor has stated that he will veto it and has 45 days to act. Even if the veto were to be overridden, the NJEDA board must be convened to grant approvals and that is within the governor's control, as is his ability to veto any board decisions. This has clearly left the awarding of incentives in limbo.

Additionally, ongoing disputes during the state budget negotiation resulted in a last-minute deal that that did not include even one of the governor's revised list of proposed economic incentives. Where New Jersey goes from here and how quickly is anyone's conjecture, but the absence of any incentive programs is not a positive sign for the office market.

Figure 3: Monthly Unemployment



Source: US Department of Labor, June 2019.

Figure 4: Office-Using Employment

	May 2018	April 2019	May 2018	M-o-M Change	Y-o-Y Change
Information	71,600	66,800	66,700	-1,000	-4,900
Financial Activities	250,900	244,600	245,400	800	-5,500
Professional & Business Services	672,100	683,700	680,200	3,500	8,100
Total	994,600	995,100	992,300	3,300	-2,300

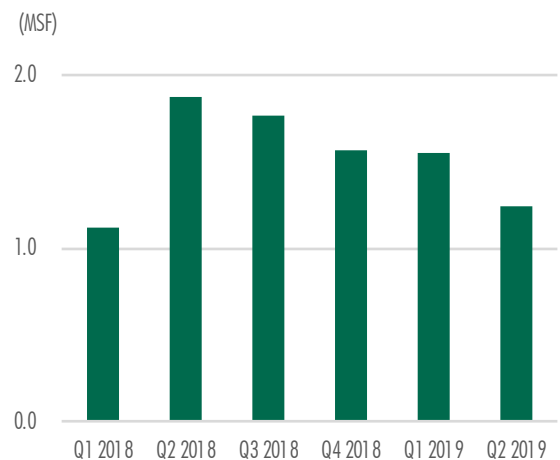
Source: U.S. Department of Labor, June 2019.

LEASING

As indicated in Figure 5, after a solid first quarter, leasing activity fell off in Q2 2019, down roughly 307,000 sq. ft. (19.8%), to 1.2 million sq. ft. This total was also below the same quarter a year earlier by nearly 630,000 sq. ft. (33.6%) and fell short of the average of 1.5 million sq. ft. over the past six quarters. In all, it was the weakest quarter for leasing activity since Q1 2018 and the slowest second quarter since 2009, during the last recession, when less than 900,000 sq. ft. was leased.

Of the leasing activity for the quarter, it was close to evenly divided between Northern and Central New Jersey. The former saw approximately

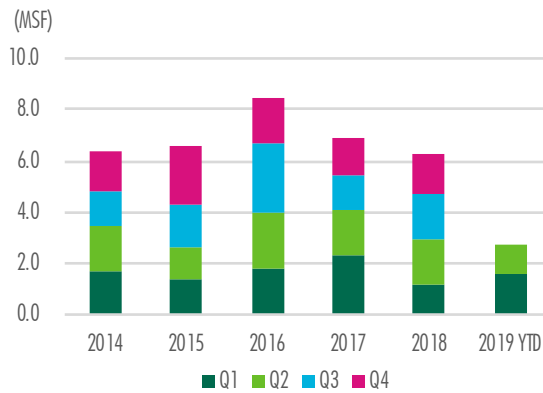
Figure 5: Quarterly Leasing Activity



Source: CBRE Research, Q2 2019.

625,400 sq. ft. of leasing, while the latter recorded 614,550 sq. ft. of new activity. However, Northern New Jersey comprises more than 1.5 times the total inventory (sq. ft.) of Central New Jersey.

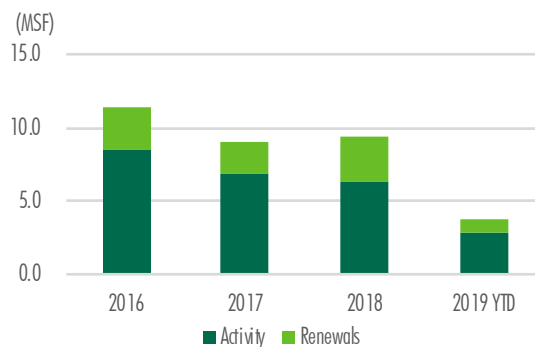
Figure 6: Historical Leasing Activity



Source: CBRE Research, Q2 2019.

Leasing velocity (new leasing plus renewals), as seen in Figure 7, has also suffered thus far in 2019 compared to the prior year. For the first six months of this year velocity equaled 3.8 million sq. ft. as compared to 4.6 million sq. ft. for the same period a year earlier, a difference of 19%. Among the submarkets, the greatest velocity for the quarter was attained by the Route 287/78 Interchange (326,200 sq. ft.), the Parkway Corridor (274,600 sq. ft.) and Princeton (202,000 sq. ft.). All are part of the Central New Jersey submarket cluster.

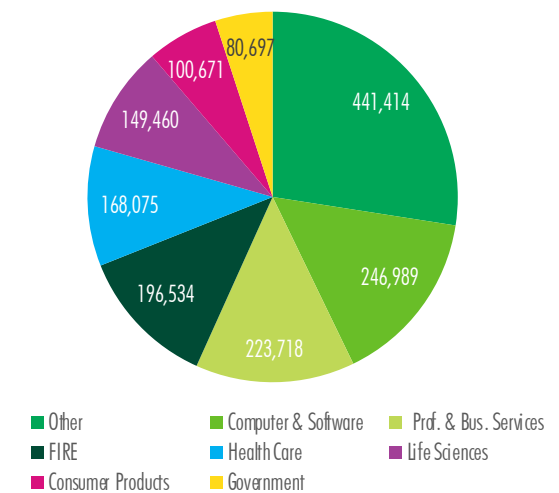
Figure 7: Quarterly Leasing Velocity



Source: CBRE Research, Q2 2019.

The top industries signing leases in the second quarter were Computer-Related and Software (246,989 sq. ft.), Professional & Business Services (223,718 sq. ft.), FIRE: Financial Services, Insurance & Real Estate (196,534 sq. ft.), Health Care (168,075 sq. ft.), Life Sciences [Biotechnology and Pharmaceuticals] (149,460 sq. ft.), Consumer Products (100,671 sq. ft.) and Government (80,697 sq. ft.). Life Sciences, Technology, Healthcare and Financial Services have all been identified as “key industries” by the state and that focus appears to be having a positive effect.

Figure 8: Q2 Leasing by Industry (Total Sq. Ft. Leased)



Source: CBRE Research, Q2 2019.

NET ABSORPTION AND AVAILABILITY

Net absorption was positive for the third time in the past four quarters, ending Q2 at 359,100 sq. ft. This reflected a turnaround of nearly 510,000 sq. ft. from the first quarter of the year. It was also more than a 550,000 sq. ft. improvement over the same quarter a year earlier. Despite the quarter's lackluster leasing with comparatively little space coming on the market, 359,100 sq. ft. represented the highest second quarterly absorption rate since 2012.

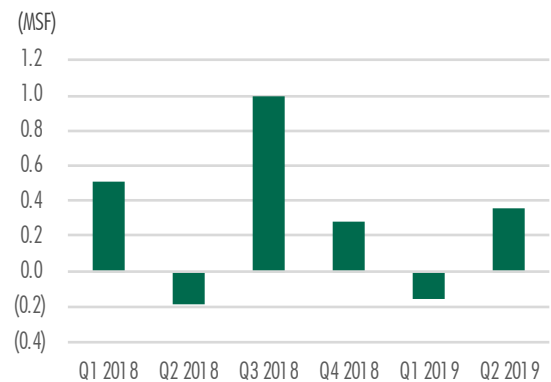
Both Northern and Central New Jersey also displayed positive results for the second quarter with approximately 27,900 sq. ft. and 331,200 sq. ft. of net absorption, respectively. Positive absorption was also recorded across all three classes, with Class B properties leading the way with roughly 191,400 sq. ft., followed by Class A at more than 160,000 sq. ft. Twelve of the market's 20 submarkets recorded positive net absorption for the quarter, with Morristown recording the highest total, nearly 300,300 sq. ft. The Route 287/78 Interchange submarket (203,400 sq. ft.) and Princeton (106,100 sq. ft.) also recorded notably strong numbers.

The availability rate fell by 20 bps quarter-over-quarter to 19.9%, the first time it has dipped below 20% since Q4 2008. It also manifested a 130-bps improvement over Q2 2018. In addition, availability declined across all three classes compared both to the first quarter of the year and the same quarter a year earlier. At the same time, the vacancy rate fell below 17% for the first time since Q3 2017, ending the quarter at 16.8%. This was 30 bps better than in the first quarter of the year and 90 bps below the second quarter last year.

As was true in the previous quarter, the Palisades at 14.0% and the Parkway Corridor at 15.7% recorded the lowest availability rates among the individual submarkets. Greater Monmouth (16.6%), Newark (16.9%) and Western Route 78 (16.9%) all posted rates below 17% for the second

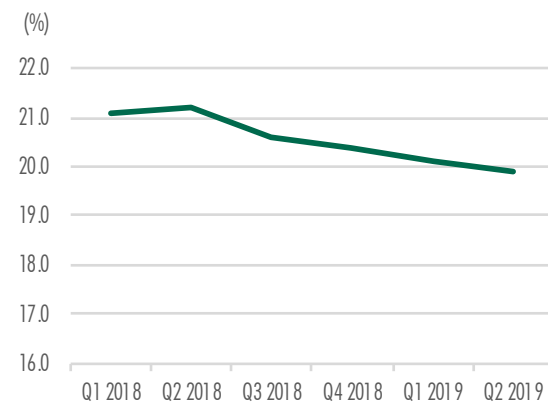
quarter. In all, 12 of the 20 submarkets exhibited availability rates below 20%, two more than in the first quarter of the year.

Figure 9: Quarterly Net Absorption



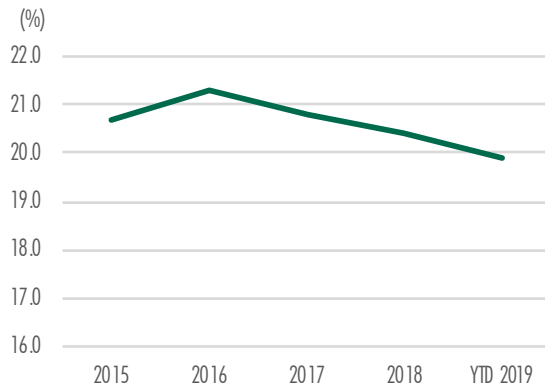
Source: CBRE Research, Q2 2019.

Figure 10: Quarterly Availability



Source: CBRE Research, Q2 2019.

Figure 11: Historical Availability



Source: CBRE Research, Q2 2019.

AVERAGE ASKING LEASE RATE

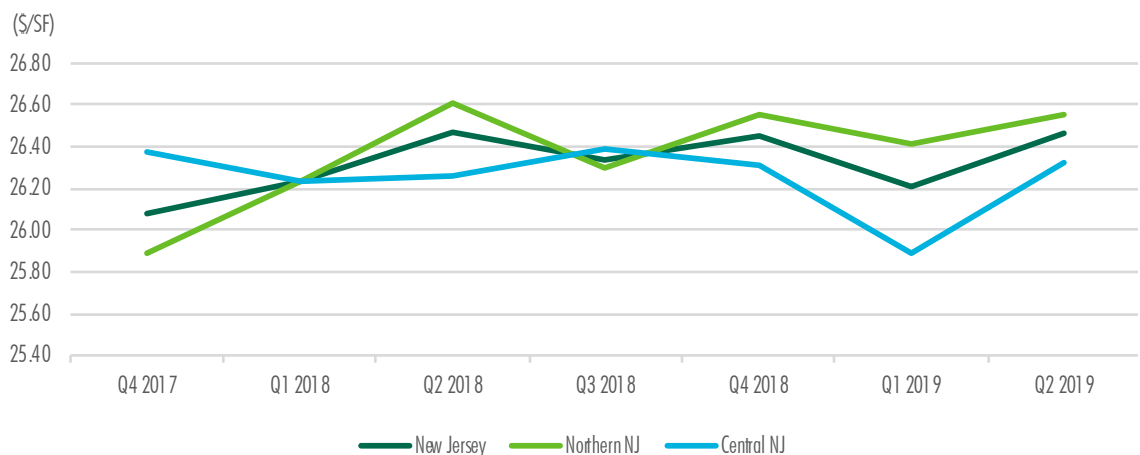
The average asking lease rate rose \$0.25 per sq. ft. quarter-over-quarter to \$26.46 per sq. ft., although it was virtually flat on a year-over-year basis. Since the beginning of 2014, when it was \$24.83 per sq. ft., the rate has risen gradually, other than one dip in 2016. However, the \$26.50 barrier has proven elusive and as Figure 12 below indicates, the rate has recently been volatile, moving up one quarter and down the next. Nevertheless, Northern New Jersey ended the second quarter with a rate of \$26.55 per sq. ft., roughly the same as a year ago, when a record average of \$26.61 was registered. By contrast, Central New Jersey averaged \$26.32 per

sq. ft. in Q2, up \$0.43 per sq. ft. from \$25.89 in the first quarter of the year, which had been the first time that market had dropped below \$26.00 per sq. ft. since Q3 2017.

The average Class A rate in Q2 2019 was \$29.15 per sq. ft., followed by Class B rate of \$23.77 and Class C rate of \$19.50. While all three classes indicated an increase compared to the first quarter, none of the changes were significant.

Although average asking rates decreased very slightly, \$0.10 per sq. ft., the Waterfront once again posted the highest rate among all submarkets, ending the quarter at \$43.79. The very small Chatham/Millburn/Short Hills submarket recorded the second highest rate for Q2 with an increase of \$6.75 per sq. ft. over the first quarter to a rate of \$42.13, a bit of a surprise. Small markets make for volatility, but this was the first time since Q1 2012 that this submarket had exceeded \$40.00 per sq. ft. The only other submarket to surpass \$30.00 per sq. ft. in the second quarter was the Parkway Corridor, at \$30.29. This was an increase of \$2.29 over the first quarter. This growth in asking rents reflects the limited availability of quality space in the market, particularly in Metropark.

Figure 12: Quarterly Asking Lease Rate



Source: CBRE Research, Q2 2019.

UNDER CONSTRUCTION

Figure 13: Under Construction

Address	City	Size (SF)	Available (SF)	Developer
110 Edison Pl. (Ironside)	Newark	402,532	66,368 (office)	Edison Properties
111 Sylvan Ave.	Englewood Cliffs	360,000	TBD	LG Electronics
ON3	Clifton	250,000	0	Prism Capital Partners
78 John Miller Way	Kearny	90,000	90,000	Hugo Neu Corporation
1000 Maxwell Ln.	Hoboken	81,000	81,000	Toll Brothers

Source: CBRE Research, Q2 2019.

There are currently five buildings under construction, all in Northern New Jersey. 111 Sylvan Avenue is an owner-built project for LG's new U.S. headquarters. 110 Edison Place, in downtown Newark, is the redevelopment of an older industrial property and has Mars USA as its lead tenant. ON3 is the redevelopment of the former Hoffmann-LaRoche campus in Nutley and Clifton and is a build-to-suit for Quest Diagnostics.

The Offices at Maxwell Place, 1000 Maxwell Lane in Hoboken, is part of a mixed-use development by Toll Brothers City Living on the former site of a Maxwell House Coffee plant. Finally, the John Miller Way property, also known as the Annex at Kearny Point, is in an area better known for industrial space. Each of the five projects is in an area that is relatively accessible to Manhattan.

INVESTMENT SALES

Figure 14: Q2 2019 Notable Sales Transactions

Address	City	Size (SF)	Price	Price/SF
Blackstone NJ Portfolio (100 Kimball Dr., 6 Sylvan Way, 100 Tice Blvd., 20-30 Lanidex Plz.)	Multiple	652,676	\$93,600,000	\$143.41
One Tower Ctr.	East Brunswick	415,753	\$38,000,000	\$91.40
5 Paragon Dr.	Montvale	119,089	\$12,200,000*	\$102.44*
180-188 Mount Airy Rd.	Basking Ridge	103,919	\$11,400,000	\$109.70
1200 Wall St. West	Lyndhurst	186,846	\$9,250,000	\$49.51

As seen in the table above, the largest sale of the second quarter was Blackstone's New Jersey office portfolio, which had been obtained through its acquisition of Gramercy Property Trust. The buyer was Signature Acquisitions of Cranford, New Jersey. Signature has been one of the most active buyers in the New Jersey suburban office market in recent years, having purchased more than 2.0 million sq. ft. of office properties, mostly in Central New Jersey. Blackstone was also involved in a second quarter acquisition through Link Industrial Properties, its U.S. industrial real

estate operating platform. Link acquired 1200 Wall Street West in the Meadowlands with the intention of converting it to a warehouse property. The Meadowlands, with its proximity to Manhattan and scarcity of development sites, is New Jersey's most expensive industrial market.

Another sale of note was One Tower Center in East Brunswick, at Exit 9 of the New Jersey Turnpike. The property is part of a mixed-use complex that includes a second office building, as well as a Hilton Hotel, and is arguably the most visible property in Central New Jersey.

Although the first half of the year was relatively active, with several high-profile properties changing hands, all indications are that the second half will see significantly greater volume.

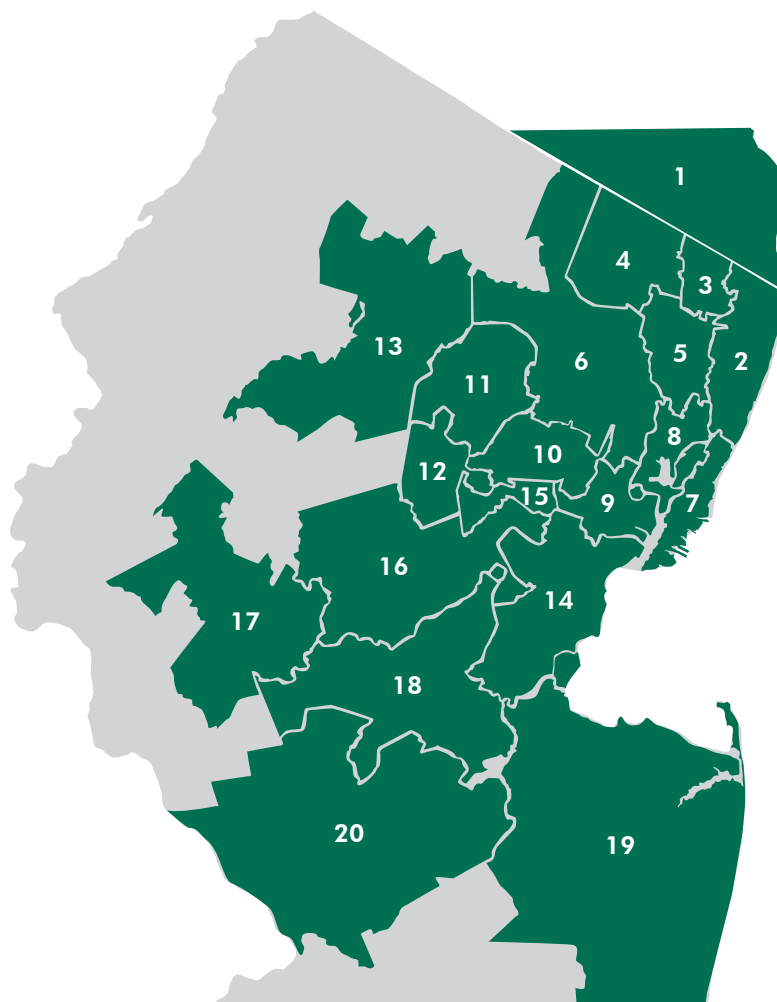
Sales in both core and core-plus assets will be driven by the current favorable interest rate environment.

Figure 15: Q2 2019 Market Statistics

Submarket	Market Rentable Area (SF)	Available (SF)	Availability Rate (%)	Avg. Asking Lease Rate (\$/SF/Yr)	Leasing Velocity (SF)	Net Absorption (SF)	YTD Net Absorption (SF)
Orange/Rockland	2,553,775	559,271	21.9	21.32	41,413	20,589	18,903
Palisades	5,068,682	711,505	14.0	27.16	11,557	53,181	(23,789)
Montvale/Woodcliff Lake	3,422,171	925,584	27.0	26.90	5,294	(48,014)	(443,394)
Route 17 Corridor	2,849,764	567,329	19.9	24.72	1,811	3,887	54,178
Central Bergen	5,770,777	1,105,423	19.2	25.94	92,953	69,560	129,784
Route 23/Paterson/Wayne	5,759,308	1,641,163	28.5	19.39	18,251	(69,311)	219,229
Waterfront	18,864,866	3,631,607	19.3	43.79	87,286	(49,751)	(124,348)
Meadowlands	5,224,206	1,234,675	23.6	24.31	38,281	(261,191)	(256,995)
Newark	12,935,510	2,190,743	16.9	28.94	137,231	16,544	367,141
Suburban Essex/Eastern Morris	8,397,048	1,562,731	18.6	23.67	84,682	(52,574)	(187,665)
Parsippany	14,000,952	3,798,324	27.1	27.53	94,345	68,789	(321,296)
Morristown	8,865,784	1,700,659	19.2	28.03	174,957	300,285	451,784
Western I-80 Corridor	710,980	248,577	35.0	22.79	1,800	(2,397)	(11,755)
Chatham/Millburn/Short Hills	899,881	235,625	26.2	42.13	0	(21,683)	(134,048)
NORTHERN NJ	95,323,704	20,113,216	21.1	26.55	789,861	27,914	(262,271)
Parkway Corridor	9,442,034	1,484,091	15.7	30.29	274,637	(42,884)	(120,923)
Route 287/78 Interchange	19,433,922	3,490,958	18.0	27.05	326,211	203,379	251,668
Western Route 78	2,434,350	411,638	16.9	19.45	2,445	2,445	26,812
Route 287/Piscataway/Brunswicks	8,266,005	1,674,891	20.3	21.07	50,268	33,798	(282,835)
Greater Monmouth County	5,008,161	831,536	16.6	25.18	53,704	28,353	186,827
Princeton	15,500,244	2,862,774	18.5	27.12	202,011	106,095	409,401
CENTRAL NJ	60,084,716	10,755,888	17.9	26.32	909,276	331,186	470,950
NJ TOTAL	155,408,420	30,869,104	19.9	26.46	1,699,137	359,100	208,679

Source: CBRE Research, Q2 2019.

Figure 16: 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.

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.