

New Jersey Office, Q3 2018

Pharma leasing boosts market, net absorption soars

Leasing Activity
1.77 MSF

Net Absorption
997,903 SF

Availability Rate
20.5%

Average Asking Lease Rate
\$26.34 PSF

*Arrows indicate change from previous quarter.

- Life sciences and other innovation economy companies drove leasing activity, with overall volume slightly above the five-year quarterly average.
- Strong leasing led to nearly one million square feet of net absorption, the highest level the market has seen since 2016 and a significant turnaround from the second quarter.
- The availability rate fell by 70 bps quarter-over-quarter to 20.5%, its lowest rate in the past four quarters.
- At \$26.34, average asking rents were statistically flat, although the highest-priced market, the Waterfront, reached a new record of \$43.69 per square foot, the seventh consecutive quarter of growth.

MARKET OVERVIEW

Pharmaceutical and other life sciences firms provided a welcome boost to the market with some of the largest leases of the quarter. Overall, ten of the top 20 third-quarter leases were attributed to innovation economy companies, with two others engaged in e-commerce activities. Collectively, they were responsible for nearly 800,000 square feet of new leasing, representing 44% of the market's activity for the third quarter. Especially notable was Teva Pharmaceuticals's commitment of 345,000 square feet in Parsippany, which will bring the company from Pennsylvania and serve as its new U.S. headquarters.

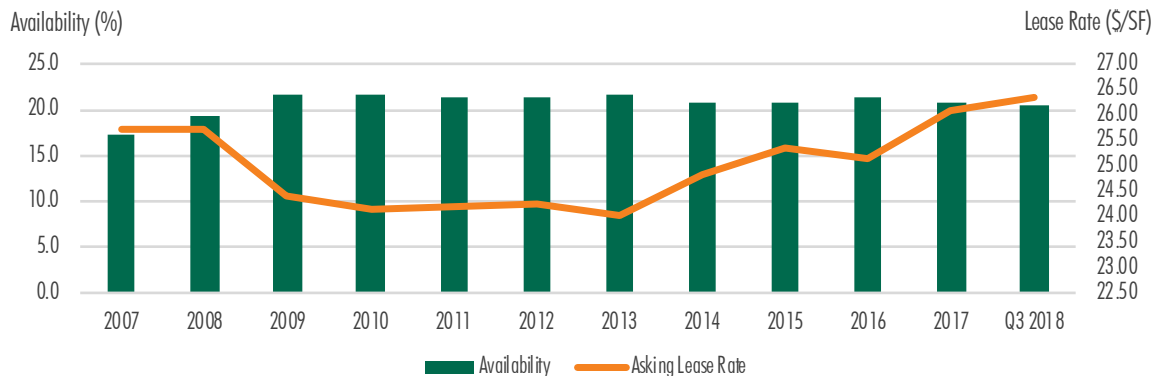
The quarter was also marked by strong positive net absorption and the lowest availability rate in the past four quarters.

Figure 1: Q3 2018 Notable Transactions

Size (sq. ft.)	Tenant	Address	City	Type
345,000	Teva Pharmaceuticals, USA	400 Interpace Parkway, Buildings A/B/D	Parsippany	Lease
204,443	BlackRock, Inc.	1 University Square Drive	West Windsor	Renewal
175,000	Deloitte LLP	100 Kimball Drive	Parsippany	Renewal
132,265	E*TRADE Financial Corporation	2 Harborside Financial Center	Jersey City	Expansion/Renewal/Lease
115,558	INSMED Incorporated	700 Route 202/206 North	Bridgewater	Lease

Source: CBRE Research, Q3 2018.

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



Source: CBRE Research, Q3 2018.

Powered by over 900,000 square feet of net absorption in Northern New Jersey, the market recorded almost one million square feet of positive absorption for the third quarter, the highest since 2016. At the same time, the availability rate decreased to 20.5%, 70 basis points (bps) better than the second quarter and even with the third quarter of 2017. Average asking rents ended the quarter at \$26.34 per square foot, \$0.13 per square foot lower than the second quarter, but \$0.37 above the \$25.97 posted in the third quarter of last year. Notably, the average asking rent in the Waterfront submarket reached a new high of \$43.69 per square foot, the seventh consecutive quarter to see an increase.

ECONOMY

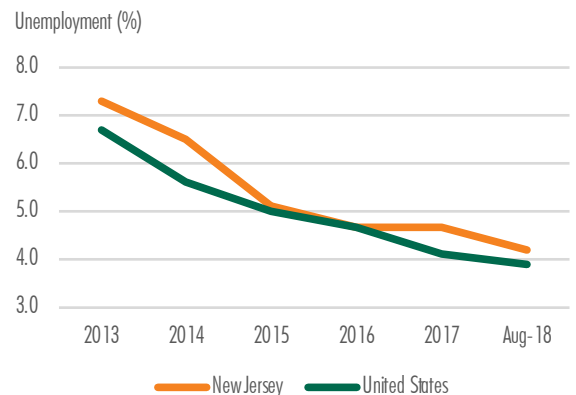
New Jersey's unemployment rate was 4.2% as of August 2018, down 50 bps year-over-year. Regionally, New Jersey's rate was the same as New York and 10 bps higher than Pennsylvania. These rates stand above the national unemployment rate of 3.9%.

Year-over-year, New Jersey's private sector added 59,600 jobs. The August total of 994,000 office-using jobs was the lowest since April, but an increase of 8,700 jobs over August 2017.

Although all components of office-using employment – financial services, information and business and professional services – have declined

business and professional services – have declined over the past two months, professional and business services employment posted year-over-year growth of 12,700 jobs in August.

Figure 3: Unemployment Rate



Source: NJ Department of Labor.

LEASING

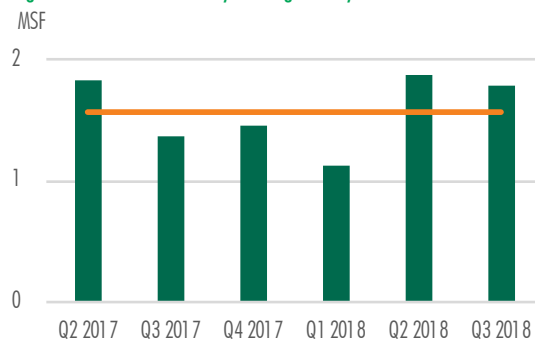
The market posted third-quarter leasing velocity of 2.6 million square feet, an increase of 4.3% over the second quarter and 22.8% above the same quarter in 2017. The total was 6.2% below the 10-year average for the third quarter. Year-to-date, leasing velocity, new leases plus renewals, is just under 7.3 million square feet, 2.5% ahead of the total for the first three quarters of last year. At the same time, it is roughly on a par with the 10-year average.

New leasing activity equaled approximately 1.8 million square feet, the second highest third quarter figure since 2012 and a year-over-year improvement of 30.8%. Third quarter renewals, which comprised 814,000 square feet, have now increased for two consecutive years and reflect an increase of more than 8.2% over the same quarter in 2017. Overall, third quarter velocity (new leases and renewals) was the highest for a single quarter since the first quarter of 2017.

Although the third quarter's 20 largest leases comprised a dozen different industries, reflecting the diversity of New Jersey's economy one industry—life sciences—stood out as the key driver of new activity. The single largest lease of the quarter was Teva Pharmaceuticals's acquisition of 345,000 square feet at 400 Interpace Parkway in Parsippany. Grow NJ incentives played an important role in luring the Israeli manufacturer of generic drugs from its long-time home in Montgomery County, PA. The Teva lease was the largest in the New Jersey office market since Allergan's August 2016 lease of 465,000 square feet at 5 Giralda Farms in Madison. Another large life sciences lease this quarter was Inmed's relocation and expansion of its global headquarters to 116,000 square feet at 700 Route 202/206 North in Bridgewater from 10 FINDERNE Avenue, also in Bridgewater. Alvogen North America, Celgene, Aerie Pharmaceuticals and Aquestive Therapeutics were other life sciences companies to make the quarter's top twenty.

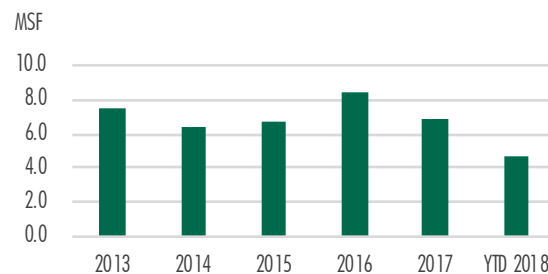
Among the other notable lease signings were Black Rock's 204,000-square-foot renewal at One University Square in Princeton, Deloitte's 175,000-square-foot renewal at 100 Kimball Drive in Parsippany and E*Trade's 132,000-square-foot renewal and expansion at 2 Harborside Financial Center in Jersey City. Grow NJ incentives were also a factor in the latter transaction. Year-to-date, New Jersey has recorded 13 transactions (new leases and renewals) above 100,000 square feet. This is significantly higher than in 2017 when only six such leases were signed.

Figure 4: Historical Quarterly Leasing Velocity



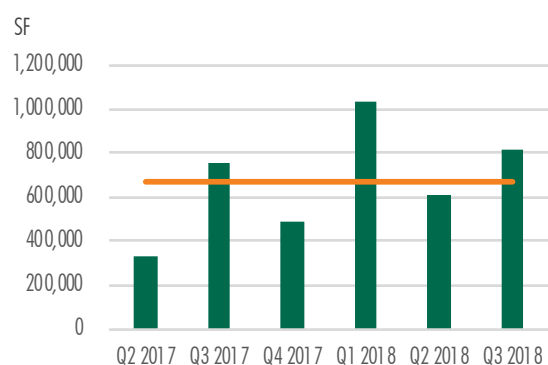
Source: CBRE Research, Q3 2018.

Figure 5: Historical Annual Leasing Velocity



Source: CBRE Research, Q3 2018.

Figure 6: Quarterly Renewal Activity



Source: CBRE Research, Q3 2018.

NET ABSORPTION

Following negative net absorption of slightly less than 200,000 square feet during the second quarter, the market rebounded strongly in the third quarter with nearly 1.0 million square feet of take-up, a turnaround of roughly 1.2 million square feet. It also marked the highest level of quarterly absorption since the third quarter 2015.

Most of the increase occurred in Northern New Jersey, which recorded 900,000 square feet of net absorption for the quarter, the largest third quarter total since 2006. The strong performance, riding the 345,000-square-foot Teva lease and a 22,000-square-foot lease by Reckitt Benckiser, propelled the Parsippany submarket to a total of 403,000 square feet of positive absorption. In addition, the Waterfront submarket, bolstered by E*Trade's 132,000-square-foot renewal and expansion at Harborside in Jersey City and Wal-Mart Digital's 42,000-square-foot lease in Hoboken, tallied more than 150,000 square feet of positive net absorption.

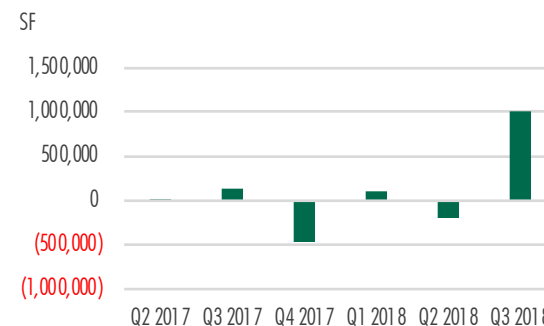
In Central New Jersey, boosted by strong leasing from life sciences and technology firms, most notably Insmed, the Route 287/78 Interchange submarket set the pace with 78,000 square feet of positive absorption. Both the Parsippany and Route 287/78 submarkets had experienced high negative net absorption in the second quarter.

Four buildings are under construction in the New Jersey office market totaling 1.3 million square feet. 548,000 square feet or 43% of the space has been pre-committed.

AVAILABILITY

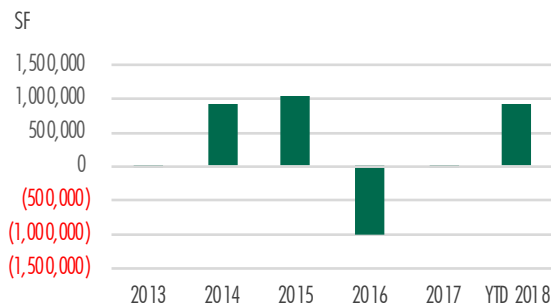
Driven by strong leasing activity, the 20.5% availability rate for the third quarter represented a quarter-over-quarter decline of 70 bps. It also marked the lowest rate of the past four quarters. Northern New Jersey saw its availability rate decrease by 90 bps, to 21.0%, while Central New Jersey fell 10 bps to 19.9%.

Figure 7: Quarterly Net Absorption



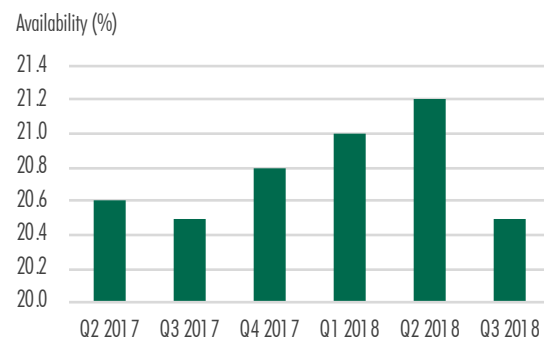
Source: CBRE Research, Q3 2018.

Figure 8: Historical Net Absorption



Source: CBRE Research, Q3 2018.

Figure 9: Quarterly Availability



Source: CBRE Research, Q3 2018.

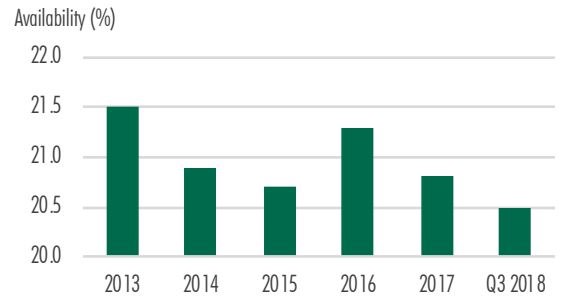
Among the third quarter's most notable improvements were the Montvale/Woodcliff Lake submarket, which saw its availability rate drop by 140 bps and Central Bergen, which experienced a 150 bps decrease over the second quarter. In both cases, multiple small changes in occupancy rather than large transactions were responsible for the reductions. Montvale/Woodcliff Lake, led by activity at 50 Tice Boulevard, represented a significant turnaround from the second quarter, when the availability rate increased by 200 bps due to numerous small blocks of space hitting the market. Not surprisingly, Parsippany saw its availability drop by 280 bps largely on the strength of the previously-mentioned Teva and Reckitt Benckiser transactions.

AVERAGE ASKING LEASE RATE

The average asking lease rate for the market overall ended the third quarter at \$26.34 per square foot, \$0.13 per square foot lower than the prior quarter, but \$0.37 above the \$25.97 posted in the third quarter last year. There was only a small disparity between Northern and Central New Jersey, with the former recording an average of \$26.30 and the latter an average of \$26.39 per square foot.

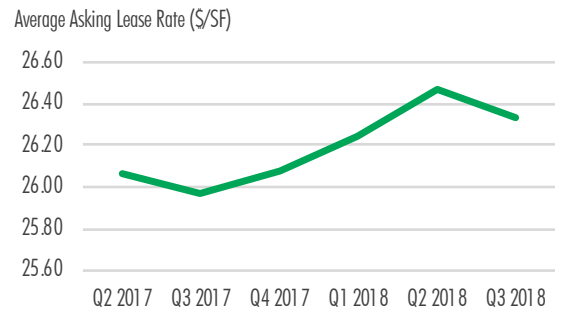
As is the norm, the average rate in the Waterfront submarket led the market with a new high of \$43.69 per square foot, the seventh consecutive quarter in which there has been an increase. Only one other submarket surpassed the \$30.00 barrier, Chatham/Millburn/Short Hills, which averaged \$33.37, down 9% from the second quarter. Although the decrease is statistically significant, it should be noted that this is the second-smallest of all New Jersey submarkets and therefore, more subject to volatility. Overall, of the 20 submarkets, seven saw rates increase quarter-over-quarter, 11 experienced a decrease and two were essentially even.

Figure 10: Historical Availability



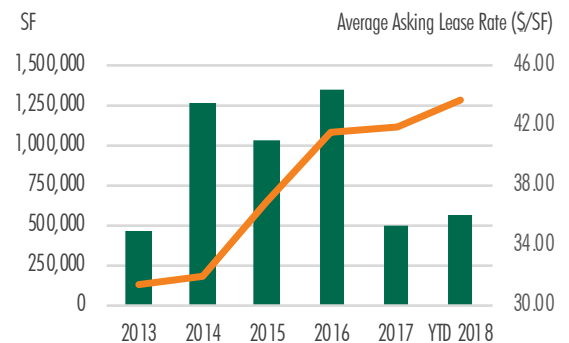
Source: CBRE Research, Q3 2018.

Figure 11: Historical Average Asking Lease Rate



Source: CBRE Research, Q3 2018.

Figure 12: Waterfront Average Asking Lease Rate and Leasing Activity



Source: CBRE Research, Q3 2018.

INVESTMENT SALES

In line with the previous quarter, there were 12 sales transactions during the past three-month period, divided evenly between Northern and Central New Jersey; however, the number of properties larger than 75,000 square feet that sold during the quarter increased to six from the four that were recorded in the second quarter of the year. Largely on the strength of the sale of Park 80 West, Plaza II in Saddle Brook, total square footage, total sales volume and average sale price were all sharply up compared to the second quarter.

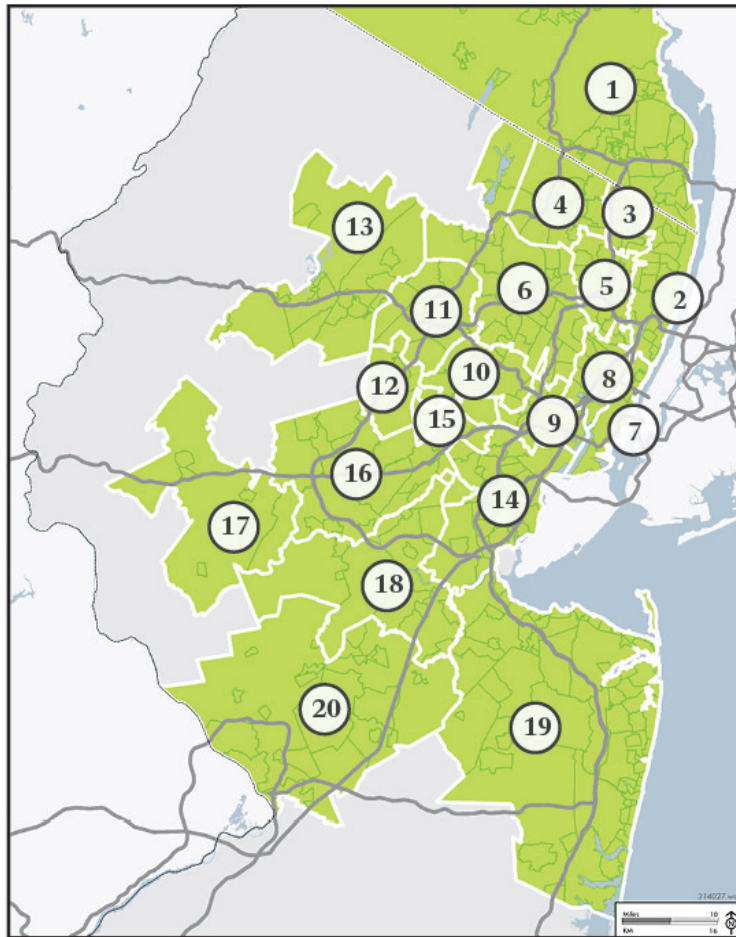
Sales volume for the third quarter totaled \$260 million compared to \$80 million in the second quarter. Total size of transactions equaled 1.6 million square feet, resulting in an average price of \$163.00 per square foot. By comparison, average price per sale in the second quarter was \$86.00 per square foot. Three properties were sold for more than \$200.00 per square foot: Park 80 West, Plaza II; 465 South Street in Morristown; and the 20,000-square-foot 62 Elm Street in Morristown. As has recently been the case, the preponderance of overall buyers were non-institutional investors.

Figure 13: Q3 2018 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	608,975	23.8	21.54	0	9,000	(2,659)
Palisades	5,048,682	726,848	14.4	27.04	41,334	15,293	65,476
Montvale/Woodcliff Lake	3,883,181	889,294	22.9	27.01	33,375	52,611	7,861
Route 17 Corridor	2,849,344	607,920	21.3	24.11	933	5,069	9,850
Central Bergen	5,780,775	1,255,178	21.7	26.86	130,201	83,173	30,815
Route 23/Paterson/Wayne	5,620,163	1,211,833	21.6	20.30	29,830	46,759	366,336
Waterfront	18,918,866	3,898,338	20.6	43.69	196,544	150,213	58,735
Meadowlands	5,224,206	819,503	15.7	22.66	59,226	(50,844)	214,034
Newark	12,469,104	2,321,443	18.6	28.39	50,336	27,525	(286,230)
Suburban Essex/Eastern Morris	8,517,542	1,374,594	16.1	24.69	38,127	31,520	9,203
Parsippany	14,376,314	3,637,147	25.3	26.58	453,017	402,932	58,089
Morristown	8,819,549	2,303,968	26.1	28.02	128,658	74,878	184,327
Western I-80 Corridor	710,980	262,685	36.9	22.48	0	(18,861)	(145,051)
Chatham/Millburn/Short Hills	899,881	149,267	16.6	33.37	5,246	70,965	14,729
Northern New Jersey Total	95,672,362	20,066,993	21.0	26.30	1,166,827	900,233	585,515
Parkway Corridor	9,442,034	1,376,686	14.6	29.60	136,845	19,780	200,216
Route 287/78 Interchange	19,449,369	3,844,492	19.8	26.97	242,675	77,892	(2,454)
Western Route 78	2,434,350	419,347	17.2	17.12	0	883	(47,960)
Route 287/Piscataway/Brunswicks	8,611,715	2,062,997	24.0	21.37	55,158	(9,487)	(200,826)
Greater Monmouth County	5,008,161	1,021,385	20.4	27.16	23,422	32,348	312,321
Princeton	15,506,821	3,286,559	21.2	27.30	147,816	(23,746)	65,458
Central New Jersey Total	60,452,450	12,011,466	19.9	26.39	605,916	97,670	326,755
New Jersey Total	156,124,812	32,078,459	20.5	26.34	1,772,743	997,903	912,270

Source: CBRE Research, Q3 2018.

Figure 14: 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.

CONTACTS

Nicole LaRusso

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

William Bender

Research Team Lead
+1 201 712 5819
William.Bender@cbre.com

Steve Gardner

Senior Research Analyst
+1 201 712 5832
Steve.Gardner@cbre.com

To learn more about CBRE Research, or to access additional research reports, please visit the Global Research Gateway at:
www.cbre.com/researchgateway.

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.

CBRE OFFICES IN NEW JERSEY

Saddle Brook

Park 80 West, Plaza Two
250 Pehle Avenue, Suite 600
Saddle Brook, NJ 07663

East Brunswick

Two Tower Center Boulevard, 20th Floor
East Brunswick, NJ 08816

Florham Park

100 Campus Drive
Florham Park, NJ 07932