

**MARKETVIEW**

 New Jersey  
 Office, Q3 2020

# Despite Large Deals, NJ Office Leasing Market Remains Cautious

**Leasing Activity**  
**1.25M Sq. Ft.**
**Net Absorption**  
**-649,000 Sq. Ft.**
**Availability Rate**  
**20.8%**
**Average Asking Lease Rate**  
**\$27.28 per Sq. Ft.**

- The availability rate rose by 50 basis points (bps) to 20.8%, the third consecutive quarterly increase.
- The average asking lease rate was stable at \$27.28.
- Leasing activity increased 256%, from Q2 2020 to 1.25 Million Sq. Ft.
- Net absorption was negative for the third consecutive quarter, largely due to sublease space flowing back to the market.
- By the end of August, employment had increased to 3.82 million positions, or 90% of February employment levels

**MARKET OVERVIEW**

Even as COVID-19 has most occupiers taking a cautious, wait-and-see approach to their occupancy strategy, overall leasing activity in New Jersey was on the upswing in Q3 2020. Several major transactions contributed to more than 1.25 million sq. ft. of leasing activity, a 256% increase from the second quarter but still well below the long-term average. The third quarter saw encouraging news in three new commitments each of 100,000 sq. ft. or more, including two in Jersey City. The market also benefited from a handful of large, long-term renewals. Occupiers who did pursue deals in Q3 were rewarded with generous landlord concessions, offered in order to get deals done at base rents close to asking.

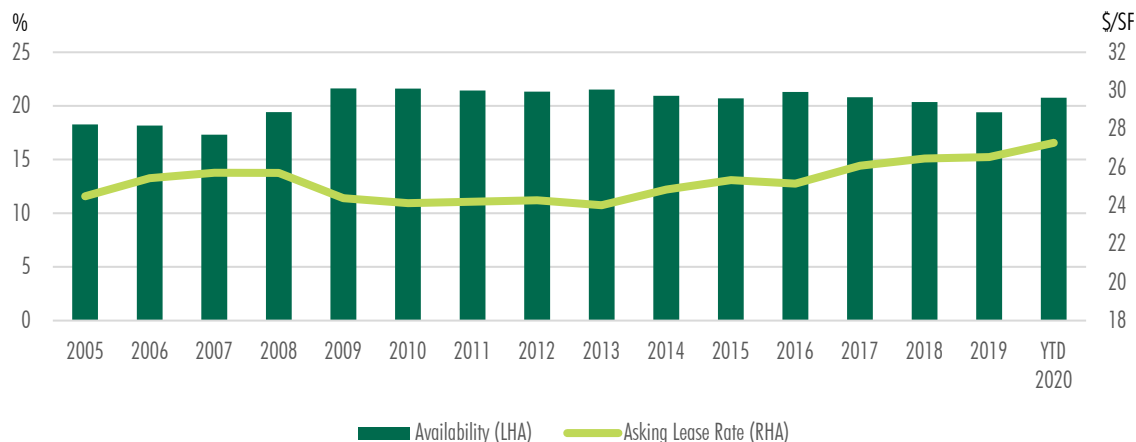
Despite the quarterly improvement in leasing and a modest recovery of OUE in the third quarter, overall the New Jersey office market felt the impact of a still weakened economy, where OUE remains down 8.3% from pre-COVID levels. This weakness manifest in

**Figure 1 : Q3 2020 Notable Lease Transactions**

Size (sq. ft.)	Tenant	Address	City	Type
306,471	Eisai Corporation	200 Metro Booulevard	Nutley	Lease
227,853	American International Group (AIG)	30 Hudson Street	Jersey City	Lease
132,096	BNP Paribas	525 Washington Boulevard	Jersey City	Renewal
111,416	Organon/WeWork	30 Hudson Street	Jersey City	Lease
101,724	Brother International	200 Crossing Boulevard	Bridgewater	Renewal

Source: CBRE Research, Q3 2020

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



Source: CBRE Research, Q3 2020

an increasing statewide availability rate, which was up to 20.8%, 50 bps greater than Q2 2020 and 130 bps over Q3 2019. Sublease space continued to flow back on the market as companies looked to cut expenses, although sublease additions were slightly less this quarter than the prior quarter. The influx of space did not affect owners holding market pricing, with average asking rents edging up slightly to \$27.28 per sq. ft., an all-time high.

**ECONOMY**

COVID-19 forced a nationwide shutdown of most economic activity in March, with the largest economic centers, especially in the Northeast, facing the strictest lockdowns. The economic fallout proved severe, pushing unemployment to over 15% nationally and causing the economy to contract by more than 30% *per annum* in the second quarter. The economy picked up steam in the third quarter, though progress has been stymied by ongoing COVID-19 outbreaks. Still, the gradual reopening of hotels and retail through the summer renewed demand for labor in many hard-hit sectors, such as hospitality and healthcare.

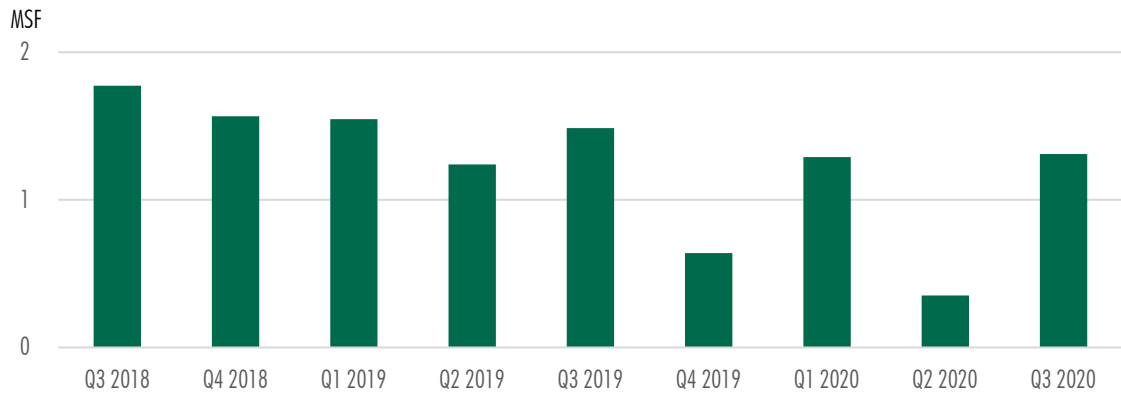
Total nonfarm employment in New Jersey fell from a pre-COVID high of 4.24 million positions in April (-19.6%). By the end

positions in April (-19.6%). By the end of August, employment had increased to 3.82 million positions, or 90% of February employment levels. OUE in New Jersey fell by 118,300 positions (-11.7%) with over 80% of these losses coming from professional and business services. New Jersey has since recovered 34,200 office-using positions, nearly one-third of those lost. This rebound in office-using positions lagged the national average which saw office-using firms recover 31.0% of their pre-COVID employment. New Jersey’s trade and transportation industries fared better, recovering 100,500 of the 157,200, or 63.8% of the jobs lost between February and April. Weekly unemployment claims in New Jersey averaged 19,200 per week in August, down from 34,600 in May, and the peak of 142,100 in April.

**LEASING**

Leasing totals rebounded strongly in Q3 2020 after a stagnant second quarter. Leasing activity, which includes new leases and expansions, increased 900,000 sq. ft. (256%), to 1,253,000 sq. ft. due to the completion of several large deals that had been in the works well before the quarter began. Even with this big uptick, activity

Figure 3: Quarterly Leasing Activity



Source: CBRE Research, Q3 2020

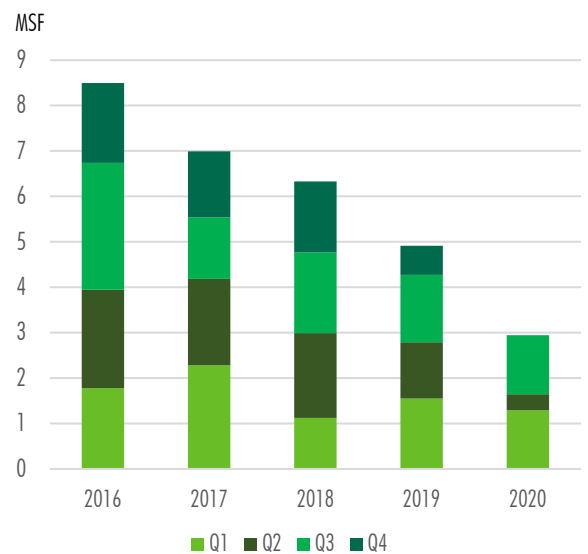
was still low, 16% below the total from Q3 2019 and 23% below the five-year quarterly average of 1,619,000 sq. ft.

More than half of the leasing activity in Q3 2020 was attributable to just three transactions. Eisai, a Japanese pharmaceutical company, recorded the largest lease of the quarter taking 306,000 sq. ft. at 200 Metro Blvd. within the ON3 redevelopment project in Nutley. Manhattan-based AIG inked the second largest new lease of the quarter, taking 228,000 sq. ft. at 30 Hudson St. in Jersey City, a partial relocation that was in the works before the start of the pandemic (To date, the virus has induced little migration of NYC-based firms to the New Jersey market). WeWork signed the third largest new lease of the quarter, agreeing to build out and operate 111,000 sq. ft. for Merck’s women’s health spin-off, Organon, also at 30 Hudson St. in Jersey City.

Smaller office occupiers, who typically are most active in the NJ market, were conspicuous in Q3 2020 for largely avoiding new long-term commitments for the second quarter in a row. Instead, many such occupiers signed short-term renewals, while several others took steps to cut costs by letting expiring leases lapse, opting instead to embrace extended staff work-from-home arrangements.

The market saw 694,000 sq. ft. of renewal activity, a 31% increase from Q2 2020, 24% greater year-over-year, and even with the five-year quarterly average. Leasing velocity, which includes renewals along with new leases and expansions, totaled 1,945,000 sq. ft., 31% greater than the previous quarter, 24% higher year-over-year, but still 15.8% under the five-year quarterly average of 2,310,000 sq. ft.

Figure 4: Historical Leasing Activity by Quarter



Source: CBRE Research, Q3 2020

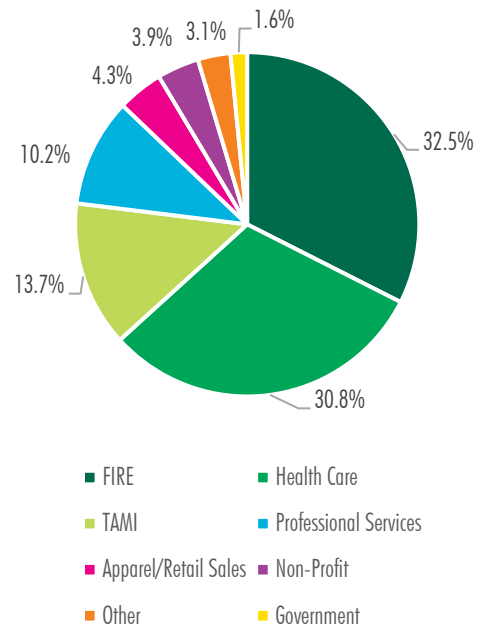
The third quarter leasing velocity exhibited geographic-based dichotomy. The lion’s share of nearly 1.48 million sq. ft. went to Northern New Jersey, where four of the quarter’s five new leases and renewals over 100,000 sq. ft. were signed. Meanwhile, Central New Jersey had leasing velocity of just 472,000 sq. ft. in Q3, with only one deal over 100,000 sq. ft.—the 102,000 sq. ft. renewal by Brother International Corporation at 200 Crossing Boulevard in Bridgewater. Legal Services of New Jersey renewed for 78,000 sq. ft. at 100 Metroplex Drive and Chubb renewed for 52,000 sq. ft. at 150 Allen Road in Bernards Township, making these Central Jersey’s only other deals over 50,000 sq. ft. More than 44% of Northern New Jersey’s leasing velocity was in The Waterfront submarket. In addition to the AIG, BNP Paribas and WeWork/Organon deals, TD Ameritrade leased 44,000 sq. ft. at Harborside 4A, Englewood Health committed to 53,000 sq. ft. at 2 Journal Square, and News America Marketing leased 43,000 sq. ft. at 575 Washington Boulevard in Jersey City.

One developing trend is the small but increasing demand for turn-key space, as some tenants look for ready-to-occupy space to downsize as they await more clarity on the office market. Most of these deals have been for rather smaller space but this quarter saw Virtu Financial sign a sublease for 35,000 sq. ft. for ready-to-occupy space at 101 JFK Parkway in Short Hills. The firm relocated from 135 Broadway in Manhattan and was attracted to the area as key executives reside nearby.

Leasing velocity by industry in Q3 2020 was concentrated in the FIRE sector (finance, insurance, real estate) with large leases by AIG and BNP Paribas, and also by health care industries with leases by Japanese pharmaceutical company Eisai and WeWork on behalf of Organon. The two sectors accounted for 63.3% of the quarter’s leasing by square footage.

Leases by Samsung (85,000 sq. ft.), and News America Marketing (43,000 sq. ft.) lifted the TAMI (technology, advertising, media and information) sector to third in leasing by industry with 13.7% of the square feet leased during the quarter. This is a welcome new industry to the top ranks of leasing since New Jersey leasing has historically been reliant upon FIRE, professional and business services, and health care activity to drive the market.

Figure 5: Leasing by Industry



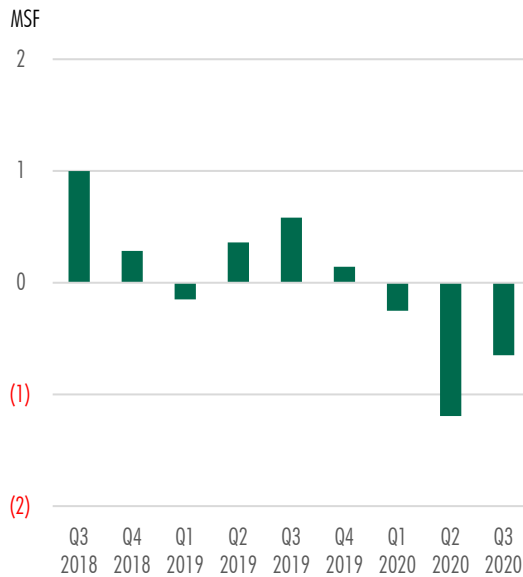
Source: CBRE Research, Q3 2020

**NET ABSORPTION AND AVAILABILITY**

Net absorption was negative for the third consecutive quarter, ending Q3 2020 at negative 649,000 sq. ft. Although still negative, Q3 2020’s absorption was a 45.7% improvement compared to the previous quarter, but well below the 581,546 sq. ft. recorded in Q3 2019. A substantial portion of negative absorption can be attributed to an influx of furnished, ready-to-occupy sublease space becoming available as tenants struggling during the recession release unneeded space back to the market.

Net absorption of sublease space in NJ was negative 850,000 sq. ft. during the quarter, in line with Q2 2020's total of negative 840,000 sq. ft. The continued additions of space during Q3 led to a rise in the state's overall availability rate by 50 bps to 20.8%, making it the third consecutive quarterly increase. New Jersey's availability rate has now risen 120 bps since the beginning of the COVID-1pandemic in March. Availability rates increased in 12 of the 20 individual submarkets, with the Parkway Corridor (15.4%) and the Palisades (16.3%) submarkets recording the lowest rates.

Figure 6: Quarterly Net Absorption

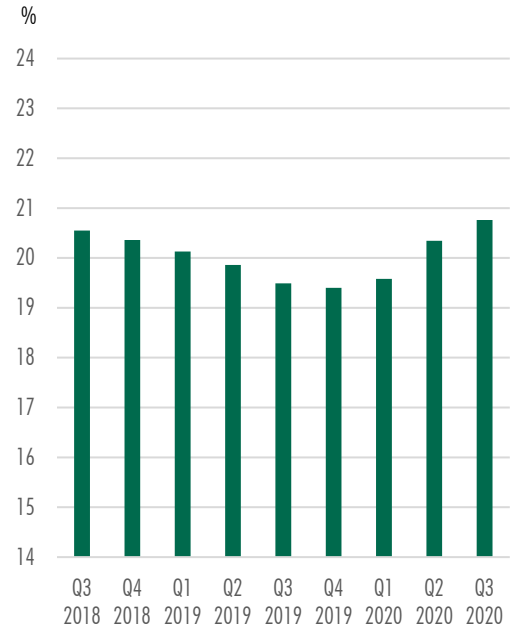


Source: CBRE Research, Q3 2020

For the second consecutive quarter, Central New Jersey accounted for most of the state's negative absorption at 485,000 sq. ft., or 75% of the state's net absorption total. Central New Jersey's availability rate rose 80 bps quarterly to 19.5%, up 200 bps compared to Q3 2019. Sublease space accounted for 241,000 sq. ft., or approximately half of the negative net absorption in Central NJ. The share of sublease space to total available space in Central New Jersey was 22.5%, up 120 bps from Q2 2020 and 690 bps from March 2020.

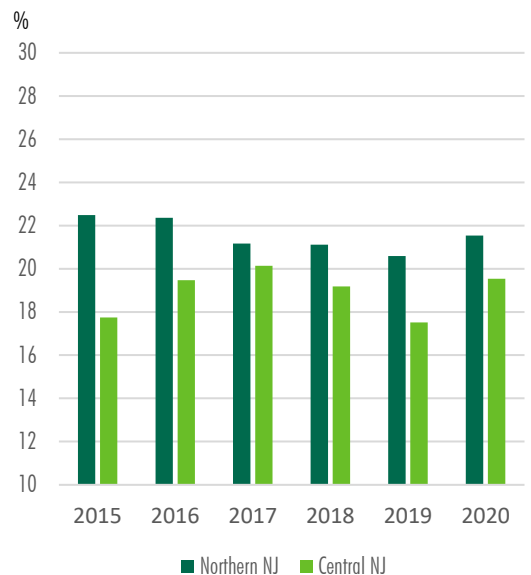
The Greater Monmouth County submarket was the largest contributor of sublease space to the Central NJ Market in Q3 2020, adding 219,000 sq. ft., 138,000 of which was attributed to 250 Industrial Way West, in Eatontown, further driving up the availability rate in the submarket 650 bps quarter-over-quarter to 20.9%.

Figure 7: Quarterly Availability Rate



Source: CBRE Research, Q3 2020

Figure 8: Historical Availability Rate



Source: CBRE Research, Q3 2020

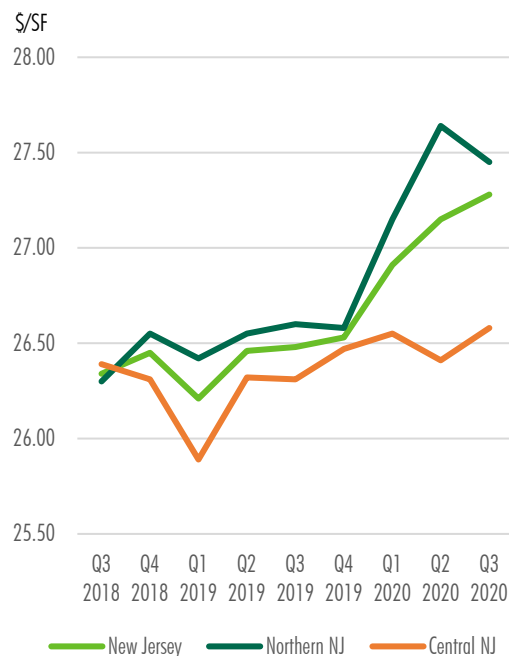
**AVERAGE ASKING LEASE RATE**

The average asking lease rate for the Northern and Central New Jersey office market inched up \$0.13 during Q3 to \$27.28 per sq. ft., and 3.0% from Q3 2019, a new all-time high for New Jersey. The increase was driven by higher-priced space returned to the market in the form of subleases. Landlords so far have held firm on asking rents but have instead incentivized occupiers by offering increased concession packages especially for larger deals like those in the Waterfront submarket. The Northern New Jersey region recorded an average asking rent of \$27.73 per sq. ft. in Q3 2020, a \$0.12 per sq. ft. increase quarter-over-quarter and a \$0.79 per sq. ft. rise year-over-year. Central New Jersey, where average asking rent was \$26.58 per sq. ft. in Q3 2020, was virtually unchanged quarter-over-quarter and year-over-year.

Despite being stable quarter-over-quarter and decreasing 3.2% year-over-year, the Waterfront submarket once again posted the highest average asking rent at \$42.39 per sq. ft. However, even with these decreases, the Waterfront average asking rent remains 1.9% over the five-year quarterly average asking rent. The asking rent dynamics in the Waterfront submarket in Q3 are due to large amounts of higher-priced space coming off the market at buildings closer to the Hudson River, such as 30 Hudson Street and 525 Washington Boulevard, where the quarter’s largest leases and renewals occurred.

The highest average asking rate of Central New Jersey submarkets in Q3 2020 was in the Parkway Corridor at \$32.23 per sq. ft., essentially flat quarter-over-quarter but up \$1.73 (5.7%) over Q3 2019 and 11.9% greater than the five-year quarterly average. Currently, the average asking rate in the Parkway Corridor is heavily influenced by availability at the Class A 200 Wood Ave South and 399 Thornall St.

Figure 9: Quarterly Average Asking Rent



Source: CBRE Research, Q3 2020

**UNDER CONSTRUCTION**

The NJ office market saw two major office completions in Q3 2020, both in Northern New Jersey. The largest completion was LG’s new 360,000 sq. ft. North American corporate headquarters at 111 Sylvan Ave in Englewood Cliffs. The new headquarters will allow LG to expand its local workforce in a 27-acre campus in a park-like setting. The other completion was a 110,000 sq. ft. office in Kearny catering to smaller coworking and creative industry tenants. The flexible office building, known as the Annex at Kearny Point, is part of Hugo Neu’s vision of transforming the former industrial area into a vibrant creative campus.

**INVESTMENT SALES**

The New Jersey investment sales market saw several major transactions during Q3 2020, including the massive 10-property, 1.45 million sq. ft. sale of Mack-Cali’s Parsippany and Madison portfolio to a group of investors including Onyx Equities, Taconic Capital

**Figure 10: Notable Sales Transactions**

Address	City	Size (Sq. Ft.)	Price	Price/SF
Mack-Cali Parsippany & Madison Portfolio	Parsippany & Madison	1,448,420	\$160,000,000	\$110
194 Wood Avenue South	Iselin	470,692	\$140,000,000	\$297
The Offices at Bedminster (500-550 Hills Drive)	Bedminster	193,900	\$32,750,000	\$169
3 Giralda Farms	Madison	141,000	\$7,974,000	\$57
325 Columbia Turnpike	Florham Park	176,073	Undisclosed	-

Advisors, Axonic Capital, and Machine Investment Group for \$160 million, or \$110 per sq. ft.

This sale is emblematic of Mack-Cali’s continued focus on core assets along the Hudson Waterfront and divestment from the New Jersey suburbs. The portfolio ended Q3 2020 with an availability rate of 34.3% and an average asking rent of \$34.33 per sq. ft., 520 bps and 10.6% higher than the Parsippany submarket averages, respectively.

Mack-Cali completed two other transactions in Morris County furthering their goal of divesting their suburban portfolio. The REIT and developer sold 3 Giralda Farm, a 141,000 sq. ft. Class A office in Madison, for \$7.97 million (\$57 per sq. ft.) to Greenway Properties. Mack-Cali also released 325 Columbia Tpk in Florham Park, a 168,000 sq. ft. Class A Office building acquired by The Birch Group in September for an undisclosed price.

The quarter’s largest office transaction on a per square foot basis was AIG’s sale to Opal Holdings of 194 Wood Ave South for \$140 million (\$297 per sq. ft.). The 471,000 sq. ft. property is fully leased, with IBM leading the roster of investment grade tenants who together account for 90% of the building’s roster.

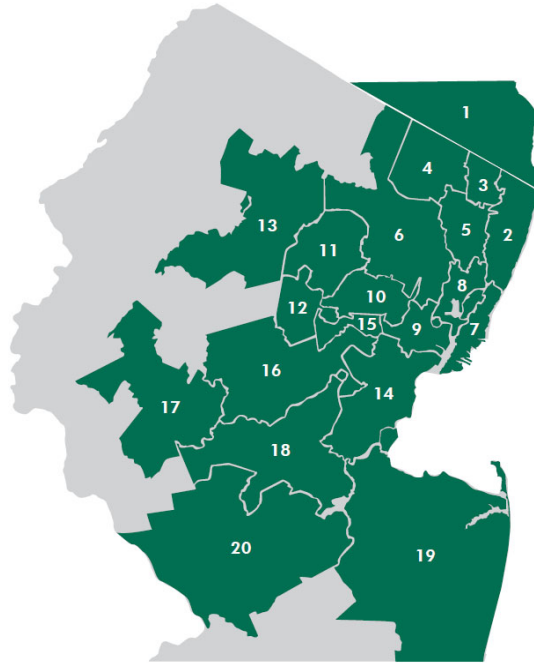
The Offices at Bedminster, located at 500 and 550 Hills Drive in the Route 287/78 Interchange submarket, traded for \$32.75 million (\$169 per sq. ft.). The two buildings compose 194,000 sq. ft. of Class A office space and was sold to an affiliate of Northeast Capital. The property was 86% leased at the time of sale with anchor tenants Peapack Gladstone Bank and Aerie Pharmaceuticals. The property recently underwent large-scale renovations, which created contemporary amenities for occupiers.

Figure 11: Q3 2020 Market 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	508,212	19.9%	\$21.37	2,978	0	54,018
Palisades	5,048,682	824,391	16.3%	\$33.55	135,852	(61,140)	(92,905)
Montvale/Woodcliff Lake	3,422,171	763,813	22.3%	\$26.63	12,785	1,517	(74,647)
Route 17 Corridor	2,849,764	754,576	26.5%	\$23.75	0	(107,965)	(183,825)
Central Bergen	5,770,777	1,202,496	20.8%	\$26.32	76,743	(48,595)	(83,426)
Route 23/Paterson/Wayne	5,808,886	1,304,545	22.5%	\$19.70	335,075	265,471	326,261
Waterfront	18,974,566	4,079,494	21.5%	\$42.39	649,916	89,616	(514,716)
Meadowlands	5,085,157	1,317,314	25.9%	\$25.92	42,626	(109,240)	(180,525)
Newark	12,935,510	2,207,976	17.1%	\$29.38	32,999	(43,272)	(84,659)
Suburban Essex/Eastern Morris	8,397,048	1,471,098	17.5%	\$24.46	1,517	(60,982)	508
Parsippany	14,000,952	4,078,560	29.1%	\$27.34	78,241	(86,212)	(100,079)
Morristown	8,847,549	1,577,403	17.8%	\$28.10	51,341	(27,247)	(108,998)
Western I-80 Corridor	710,980	235,441	33.1%	\$22.69	0	(10,156)	(18,738)
Chatham/Millburn/Short Hills	899,881	200,384	22.3%	\$30.87	56,224	34,640	35,241
<b>Northern New Jersey Total</b>	<b>95,305,698</b>	<b>20,524,994</b>	<b>21.5%</b>	<b>\$27.73</b>	<b>1,476,297</b>	<b>(163,565)</b>	<b>(1,026,490)</b>
Parkway Corridor	9,442,034	1,457,839	15.4%	\$32.23	122,652	14,627	79,381
Route 287/78 Interchange	19,853,649	3,902,241	19.7%	\$25.95	233,356	(121,925)	(577,456)
Western Route 78	2,434,350	388,505	16.0%	\$19.21	3,676	5,100	23,123
Route 287/Piscataway/Brunswicks	8,266,005	2,023,028	24.5%	\$22.17	79,604	29,063	20,096
Greater Monmouth County	5,011,672	1,048,835	20.9%	\$26.15	2,224	(326,468)	(328,448)
Princeton	15,500,244	3,003,026	19.4%	\$27.01	29,458	(85,807)	(288,261)
<b>Central New Jersey Total</b>	<b>60,507,954</b>	<b>11,823,474</b>	<b>19.5%</b>	<b>\$26.58</b>	<b>470,970</b>	<b>(485,410)</b>	<b>(1,071,565)</b>
<b>New Jersey Total</b>	<b>155,813,652</b>	<b>32,348,468</b>	<b>20.8%</b>	<b>\$27.28</b>	<b>1,947,267</b>	<b>(648,975)</b>	<b>(2,098,055)</b>

Source: CBRE Research, Q3 2020





- |                                   |                                    |
|-----------------------------------|------------------------------------|
| 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/Brunswick |
| 9. Newark                         | 19. Greater Monmouth County        |
| 10. Suburban Essex/Eastern Morris | 20. Princeton                      |

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**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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