

New Jersey Office, Q4 2018

Yearly net absorption posts highest total since 2005

Leasing Activity
1.56 MSF

Net Absorption
284,264 SF

Availability Rate
20.4%

Average Asking Lease Rate
\$26.45 PSF

*Arrows indicate change from previous quarter.

- New Jersey’s unemployment rate fell to 4.0% in November, its lowest level since June 2001.
- Fourth quarter leasing activity increased year-over-year by approximately 113,000 sq. ft., although annual activity was down by about 8% compared to 2017.
- At 1.6 million sq. ft. of net absorption, the market recorded its highest annual total since 2005. Absorption was positive in 2018 in three of the four quarters.
- The market posted an availability rate of 20.4%, a slight decrease over the third quarter, the lowest rate in the past 10 years.
- The average asking lease rate ended the year at \$26.45 per sq. ft. This was the second highest average rate recorded since the first quarter of 2002.

MARKET OVERVIEW

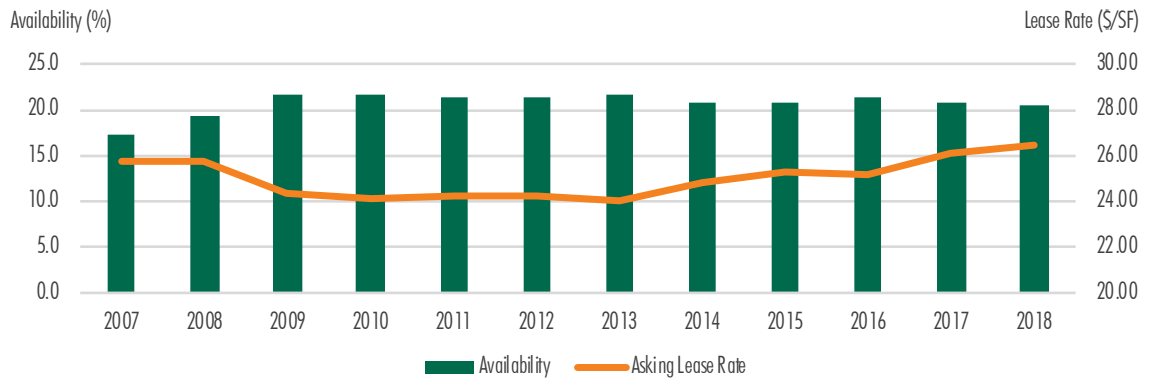
As 2018 came to an end, despite some headwinds, there were several encouraging signs for the New Jersey economy and office market. Although challenges remain, such as declining year-over-year leasing activity in both 2017 and 2018 and a number of large blocks of space that have failed to lease, looking back at the past five and ten years provides multiple indications that the office market has made noticeable progress. While many of the statistical improvements have been of an incremental nature, going into 2019, with the economy still looking strong, there is optimism that the market is on its best footing in some time.

Figure 1: Q4 2018 Notable Transactions

Size (sq. ft.)	Tenant	Address	City	Type
224,313	Phillips-Van Heusen	1001 Frontier Road	Bridgewater	Renewal/Expansion
110,423	Sumitomo Mitsui Banking	Harborside Plaza 2	Jersey City	Renewal/Expansion
80,180	First Data Corporation	101 Hudson Street	Jersey City	Renewal/Expansion
43,005	Jacobs Engineering	412 Mt. Kemble Avenue	Morristown	New Lease
34,000	LEO Pharma	7 Giralda Farms	Madison	Expansion

Source: CBRE Research, Q4 2018.

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



Source: CBRE Research, Q4 2018.

One example of positive change in 2018 was annual net absorption which, at 1.6 million sq. ft., was the highest level registered since 2005. It also broke a stretch of two years in which annual absorption ended in negative territory. Fourth quarter leasing activity was up year-over-year by more than 100,000 sq. ft., although for 2018 in its entirety, total activity was off by just under 600,000 sq. ft., an 8% decrease. A decline in large transactions accompanied by a strong shift to smaller deals has had a decided impact on new leasing in the past few years. Irrespective of that, financial services, apparel/retail sales and technology firms were among the industries driving New Jersey’s leasing in the fourth quarter.

The availability rate ticked down 10 basis points (bps) in the fourth quarter to 20.4% and while this was a minimal decrease over the previous quarter, it represents the lowest availability rate the market has achieved since the fourth quarter of 2008. The rate currently stands 90 bps lower than the end of 2016 and 40 bps less than one year earlier.

The average asking lease rate closed the year at \$26.45 per sq. ft., just \$0.02 per sq. ft. below the second quarter of the year, when the market registered its highest asking rate since the first quarter of 2002. The average asking rate has advanced slowly in the past five years, but is now up by \$1.83 per sq. ft. or just under 7% since the fourth quarter of 2014.

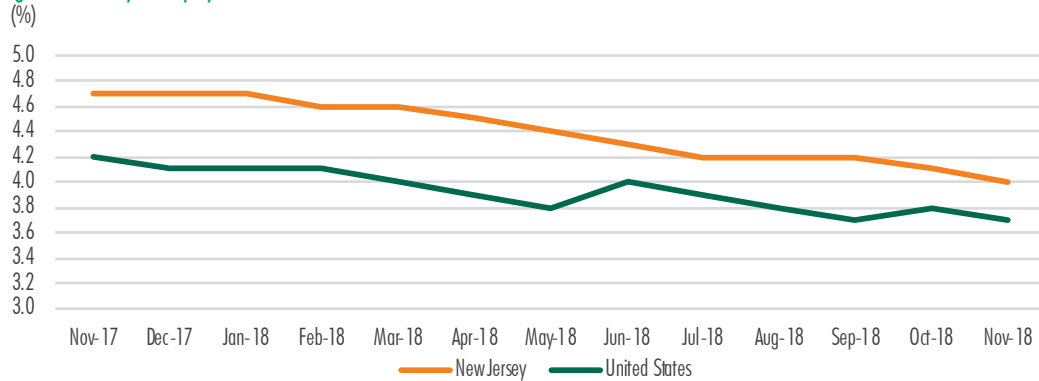
The year ended with no new buildings having been added to the inventory. However, one building is under construction, 110 Edison Place in Newark. Known as Ironside, the 402,000 sq. ft. redeveloped warehouse is currently 60% leased.

ECONOMY

New Jersey’s unemployment rate for November fell 0.1% to 4.0%, the lowest since June 2001. It marked the second consecutive month in which the rate showed a decline. Although nonfarm wage and salary employment decreased by 1,800 jobs in November to reach a seasonally adjusted level of just over 4.2 million, year-over-year employment increased by 60,900, all the gains being attributed to private sector employers (+61,900). Since the low point of the recession in February 2010, New Jersey’s private sector employers have added more than 406,000 jobs.

Month-over-month, November office-using employment in New Jersey exhibited minimal declines in each of the three broad employment categories. The same was true compared to November 2017, except for Professional and Business Services, which increased by 21,200, bringing the overall yearly gain to 18,300 jobs.

Figure 3: Monthly Unemployment Rate



Source: NJ Department of Labor, Q4 2018.

Figure 4: Office-Using Employment

	Nov. 18	Oct. 18	Nov. 17	Mo.-Mo. Change	Yr.-Yr. Change
Information	68,100	69,300	69,700	-1,200	-1,600
Financial Activities	246,800	247,600	248,100	-800	-1,300
Professional & Business Services	687,100	690,700	665,900	-3,600	21,200
Total	1,002,000	1,007,600	983,700	-5,600	18,300

Source: NJ Department of Labor, Q4 2018.

As 2018 ended, there were several signs of optimism for the New Jersey economy. Among them are recent gains in life sciences (Teva’s relocation to Parsippany, Evotec’s relocation to Princeton and others), higher year-over-year employment in Professional and Business Services (+21,200), and Newark’s continued rebound.

NEW JERSEY INCENTIVES PROGRAMS

As has been widely publicized, two of New Jersey’s biggest incentive programs, including Grow NJ, are set to expire in June 2019. This leaves just six months for elected officials to decide whether to renew or modify the oft-criticized programs, which since 2011 have awarded close to \$700 million in exchange for recipients creating more than 15,000 new jobs, retaining a like number and enabling roughly \$4.7 billion in capital investments.¹ There has been strong resistance in certain quarters in the belief that the incentives impede revenue growth, casting doubt on the future availability of the programs in their present form, if at all.

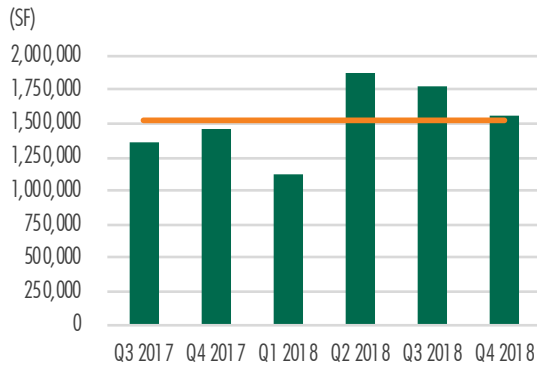
¹ Source: New Jersey Economic Development Authority.

LEASING

At nearly 2.2 million sq. ft., leasing velocity was down quarter-over-quarter by just over 400,000 sq. ft. or nearly 16%. At the same time, a streak of three consecutive quarters in which total leasing posted a quarter-over-quarter increase has ended. Nevertheless, velocity increased year-over-year by approximately 424,000 sq. ft., reflecting an improvement of roughly 5% and providing a heartening sign for the market going into the new year.

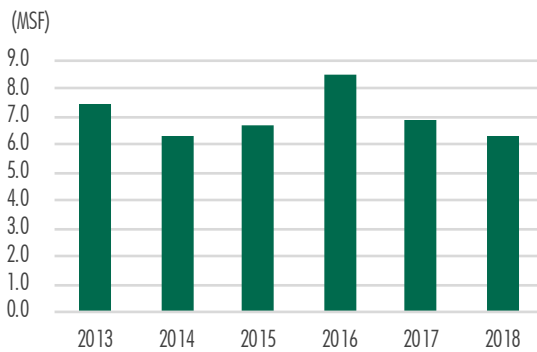
Of the fourth quarter’s total velocity, 617,000 sq. ft. or 28% came in the form of renewals. Over the past three years, renewals have comprised 27% of all leasing, so the fourth quarter was a mirror image of what has become the recent norm. At the same time, however, new leasing was down about 200,000 sq. ft. quarter-over-quarter and decreased by 578,000 sq. ft. year-over-year. Further, activity was more than 2.1 million sq. ft. below the total recorded in 2016, when new leasing reached 8.5 million sq. ft., reflecting a 25% decline.

Figure 5: Quarterly Leasing Activity



Source: CBRE Research, Q4 2018.

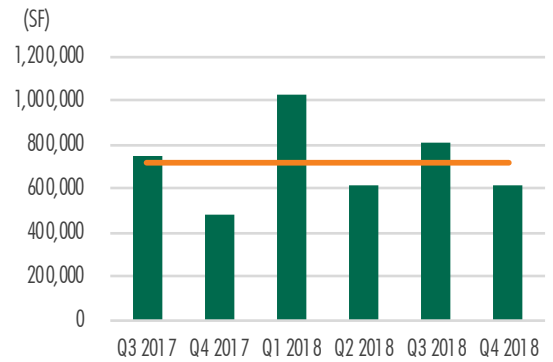
Figure 6: Historical Leasing Activity



Source: CBRE Research, Q4 2018.

Major leases were well-dispersed throughout the market in the fourth quarter. The quarter's largest lease was Phillips-Van Heusen's 224,000-sq.-ft. renewal at 1001 Frontier Road in Bridgewater, where it has been a long-time tenant. Other large leases were signed in Jersey City where Sumitomo Mitsui Banking renewed for 74,000 sq. ft. and expanded by an additional 36,000 sq. ft. at Harborside Plaza 2 and First Data Corporation renewed for more than 48,000 sq. ft. and added nearly 32,000 sq. ft. at 101 Hudson Street, both owned by Mack-Cali. Morristown, Rt. 287/78 Interchange and the Parkway corridor were other submarkets in which multiple medium to large-sized transactions took place. Unlike recent quarters, none of the top transactions in the fourth quarter were linked to Grow NJ or other incentive awards.

Figure 7: Quarterly Renewal Activity

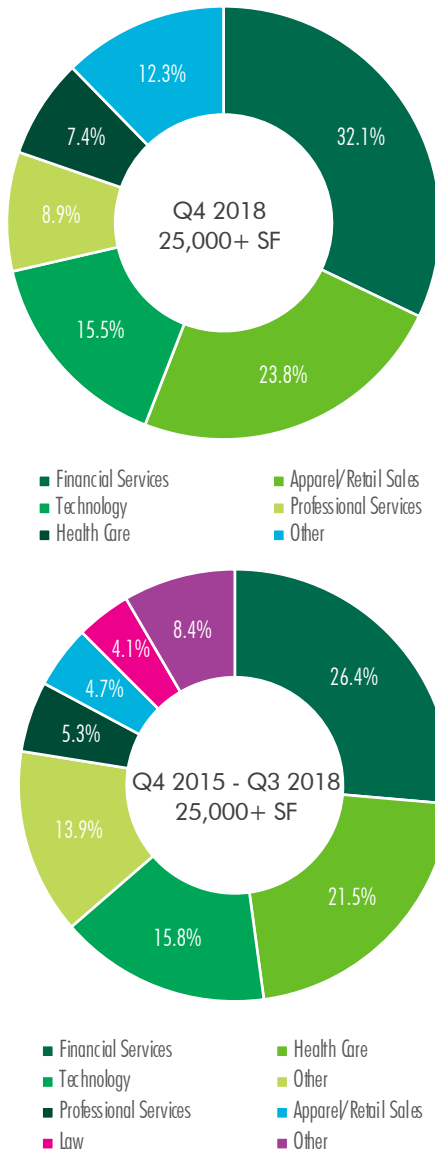


Source: CBRE Research, Q4 2018.

As indicated in Figure 8, among the fourth quarter's largest transactions, financial services was the single largest industry by total square feet leased, followed by apparel/retail sales and technology. During the prior three years (fourth quarter 2015 through third quarter 2018), financial services also ranked first, barely edging out health care (including pharma and biotech), with technology again ranked third.

Several submarkets posted noteworthy results in 2018. Following a lackluster 2017, the Waterfront submarket recovered significantly this year, recording just shy of one million sq. ft., a 93.4% increase year-over-year. The Parkway Corridor finished 2018 with 767,484 sq. ft. of new leases, a 56.5% increase year-over-year and Rt. 287/78 Interchange registered 678,341 sq. ft. of new leases during 2018, a slight decrease year-over-year, but still very healthy. Finally, for the fourth consecutive year, Parsippany recorded more than 650,000 sq. ft. of new leases. Teva Pharmaceutical's 350,000-sq.-ft. third quarter lease at 400 Interpace Parkway was the New Jersey office market's largest lease of the year.

Figure 8: Leasing Activity by Industry



Source: CBRE Research, Q4 2018.

NET ABSORPTION

Although net absorption in the fourth quarter did not come close to the 998,000 sq. ft. recorded in the third quarter, at 284,000 sq. ft. it does mark the third time the market saw a quarterly positive total in 2018. As a result, for the year, the market enjoyed 1.6 million sq. ft. of positive net absorption, the highest annual total seen since 2005 and another welcome sign for 2019.

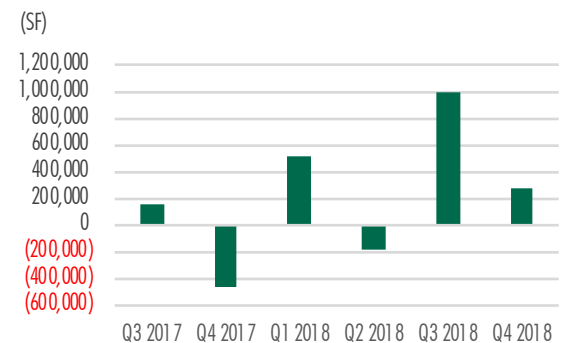
Since net absorption for all of 2017 was a slightly negative 14,000 sq. ft., the year-over-year improvement was particularly impressive, as was the massive increase over 2016, when net absorption was in the red by more than one million sq. ft.

Both the northern and central New Jersey markets posted positive net absorption for the year, with roughly 853,000 sq. ft. and 744,000 sq. ft., respectively. Northern and central New Jersey have not simultaneously recorded positive results in the same year since 2007. 2018 also marked the first year since 2014 that central New Jersey's yearly net absorption was positive.

Submarkets that displayed particularly strong net absorption for 2018 overall included the Waterfront, with 396,000 sq. ft.; Morristown with 382,000 sq. ft.; Newark, at 344,000 sq. ft.; Greater Monmouth, at 315,000 sq. ft.; and Parkway Corridor, with 214,000 sq. ft. Palisades, with 125,000 sq. ft., and Rt. 287/Piscataway/Brunswicks, at 124,000 sq. ft., were also above 100,000 sq. ft. in positive absorption.

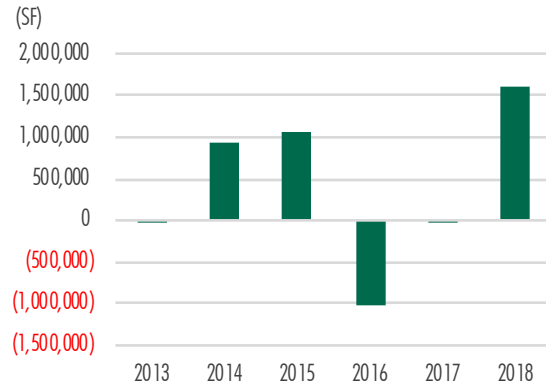
The phenomenon of slowing leasing activity and positive absorption can be explained by the fact that additions to supply have slowed more, allowing leasing to stay ahead of the increase in available space.

Figure 9: Quarterly Net Absorption



Source: CBRE Research, Q4 2018.

Figure 10: Annual Net Absorption

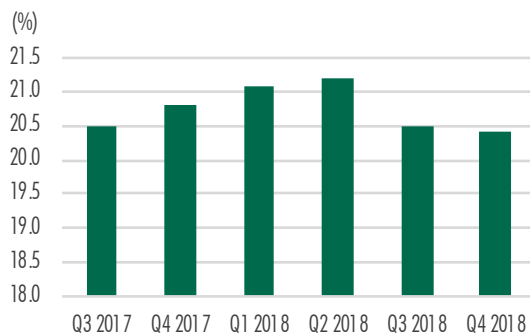


Source: CBRE Research, Q4 2018.

AVAILABILITY

In Q4 2018, New Jersey’s overall availability rate dropped for the second consecutive quarter, ending 2018 at 20.4%, a 20 bps dip over the third quarter of the year and the lowest availability rate for the market since the fourth quarter of 2008, when the rate ended the year at 19.8%. Northern New Jersey recorded a rate of 21.1% for the fourth quarter, a 10 bps increase over the previous quarter, but the second-lowest rate since the fourth quarter of 2012. Central New Jersey once again fared better, closing the year at 19.2%, a 70 bps improvement over the third quarter and the lowest rate registered since the third quarter of 2017.

Figure 11: Quarterly Availability



Source: CBRE Research, Q4 2018.

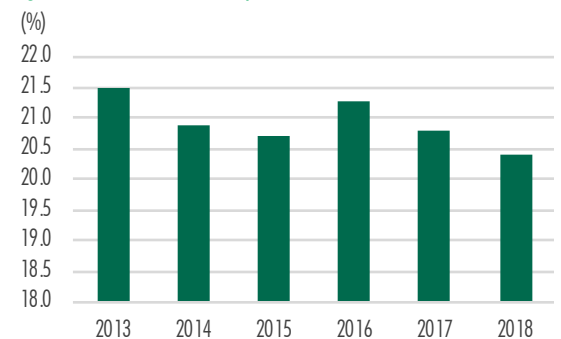
Among the submarkets, results were mixed. Route 23/Paterson/Wayne recorded a 900 bps increase in availability to 30.6% as the result of Toys ‘R’ Us’ bankruptcy.

The global toy chain’s HQ was located in Wayne (534,264 sq. ft.) and came onto the market during the fourth quarter as fully available. Reflecting another departure of a major occupier, the Meadowlands’s availability rate increased by 300 bps during the quarter to 18.7% as the result of Polo Ralph Lauren vacating most of 9 Polito Avenue in Lyndhurst to relocate to ON3 slightly further west in Nutley.

On the positive side, the Waterfront submarket recorded a decrease in availability of 180 bps in part due to strong leasing during the quarter. This brought the Waterfront’s rate to 18.8%, the low point of the past two years. Newark also saw its availability rate decline by 180 bps during the quarter to 16.8%, its lowest rate since the end of 2010. The compression during the quarter was the result of two major changes in the market: IDT withdrew 121,000 sq. ft. of available space from the market at 520 Broad Street and a confidential lease transaction removed more than 70,000 sq. ft. of available space.

Other significant decreases in availability included Morristown (220 bps), which saw several significant leases, and Route 287/Piscataway/ Brunswicks, which registered a decrease of 380 bps during the fourth quarter as a result of 1111 Durham Avenue removing its availability (236,710 sq. ft.) from the market. In December 2018, the South Plainfield planning board met regarding a developer’s housing plan for the site, as the building remains vacant and no longer marketed.

Figure 12: Historical Availability



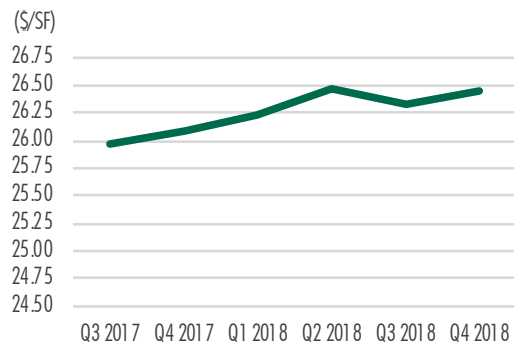
Source: CBRE Research, Q4 2018.

AVERAGE ASKING LEASE RATE

After falling by \$0.13 per sq. ft. in the third quarter, the average asking lease rate increased by \$0.11 per sq. ft. quarter-over-quarter, ending the year at \$26.45 per sq. ft. This was the second-highest average rate recorded since the first quarter of 2002, exceeded only by the \$26.47 per sq. ft. posted in the second quarter of this year. Year-over-year the rate rose only minimally, growing by \$0.37 per sq. ft. The rate for Class A space was flat, but both Class B and Class C showed increases of \$0.46 and \$0.67, respectively, which accounted for the higher overall average in the fourth quarter. Northern New Jersey attained a rate at year-end of \$26.55 per sq. ft. and central New Jersey ended at \$26.31. Neither rate was significantly different than in the prior quarter.

In the submarkets, the asking lease rate in the Meadowlands rose by \$1.85 per sq. ft. during the fourth quarter due to One Harmon Plaza raising asking rents from \$24.00 per sq. ft. to \$27.00 and 9 Polito Avenue putting 216,000 sq. ft. on the market with an asking rate of \$29.00 per sq. ft. The Waterfront once again had the highest average asking rate in the market at \$43.36 per sq. ft., but the decline from the third quarter (\$43.69) marked the first quarter in the past seven in which the average did not increase. Newark, however, ended 2018 with an average of \$29.05 per sq. ft., a year-over-year increase of \$1.20 and the highest asking rate ever recorded in the submarket.

Figure 13: Quarterly Asking Lease Rate



Source: CBRE Research, Q4 2018.

INVESTMENT SALES

The fourth quarter saw 17 individual office building sales and one three-building portfolio sale (300, 400 and 500 Atrium Drive in Franklin Township). The combined sales totaled \$273 million or \$91.00 per sq. ft.¹ Far and away the largest property to trade was the one-million-sq.-ft. former Merck headquarters in Readington Township, in Hunterdon County. The 1,100-acre property, vacant since Merck moved to Summit in 2012, was purchased by UNICOM Global of California as a regional headquarters. The campus, on Oldwick Road, has since been rebranded as the UNICOM Science and Technology Park.

Of the larger buildings to move during the fourth quarter, two of the most notable sales took place in Paramus, in Bergen County. The larger of the two, 115-117 West Century Road (Country Club Plaza I-II), 300,260 sq. ft., was acquired for \$74.0 million from a joint venture of Onyx Equities and Garrison Investment Group by Premium Capital Resources. The 97% occupied building previously traded in August 2016 for \$35.2 million. The second Paramus transaction was at 80 State Route 4 (169,724 sq. ft.), which was purchased by Hanjin Shipping Co. Ltd. from Seoul Trading Co. for \$25.5 million.

For 2018 overall, perhaps the most notable trend was reflected in the sales of properties like 115-117 West Century Road, Park 80 West in Saddle Brook and CenterPointe at Bridgewater, all of which were acquired as value-add assets in 2015-16, repositioned by the new owners and sold as core assets this year at prices reflective of the resultant leasing success. It would not be surprising to see more of the same occur in 2019.

¹Source: Real Capital Analytics.

Figure 14: Q4 2018 Notable Sales Transactions

Address	City	Size (Sq. Ft.)	Sale Price	Price/SF
1 Merck Drive	Readington	1,000,000	\$25,000,000	\$25.00
300-400-500 Atrium Drive	Somerset	738,000	\$33,500,000	\$45.39
115-117 W Century Road	Paramus	300,260	\$74,000,000	\$246.45
41 Spring Street	New Providence	170,000	\$23,000,000	\$135.29
80 NJ State Route 4	Paramus	169,724	\$25,500,000	\$150.24

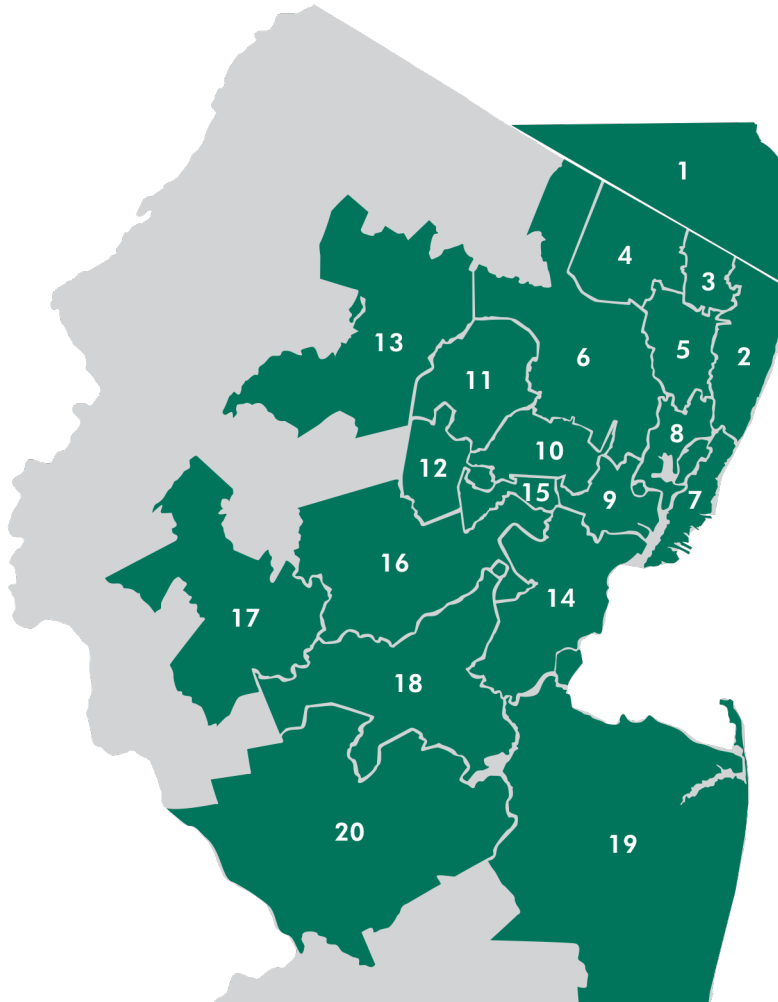
Source: Real Capital Analytics, Q4 2018.

Figure 15: Q4 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	578,174	22.6	21.40	21,625	30,801	28,142
Palisades	5,048,682	667,716	13.2	27.30	48,997	59,132	124,608
Montvale/Woodcliff Lake	3,883,181	943,200	24.3	27.03	24,487	(53,906)	(46,045)
Route 17 Corridor	2,849,344	621,087	21.8	24.16	11,694	(13,167)	(3,317)
Central Bergen	5,780,775	1,245,205	21.5	26.50	63,450	9,973	40,788
Route 23/Paterson/Wayne	5,620,163	1,721,247	30.6	20.33	22,506	(509,414)	(143,078)
Waterfront	18,918,866	3,561,259	18.8	43.36	387,849	337,079	395,814
Meadowlands	5,224,206	977,680	18.7	24.51	50,657	(158,177)	55,857
Newark	12,469,104	2,091,478	16.8	29.05	123,710	229,965	344,267
Suburban Essex/Eastern Morris	8,517,542	1,495,560	17.6	23.91	41,580	(120,966)	(111,763)
Parsippany	14,376,314	3,852,390	26.8	26.74	56,427	(215,243)	(157,154)
Morristown	8,819,549	2,106,208	23.9	28.37	151,243	197,760	382,087
Western I-80 Corridor	710,980	236,822	33.3	22.74	29,636	25,863	(119,188)
Chatham/Millburn/Short Hills	899,881	101,597	11.3	33.37	0	47,670	62,399
Northern New Jersey Total	95,672,362	20,199,623	21.1	26.55	1,033,861	(132,630)	853,417
Parkway Corridor	9,442,034	1,363,168	14.4	29.75	130,537	13,518	213,734
Route 287/78 Interchange	19,449,369	3,758,073	19.3	26.86	169,429	86,419	83,965
Western Route 78	2,434,350	438,450	18.0	17.87	0	(19,103)	(67,063)
Route 287/Piscataway/Brunswicks	8,611,715	1,737,766	20.2	21.09	106,856	325,231	124,405
Greater Monmouth County	5,008,161	1,018,363	20.3	27.26	24,861	3,022	315,343
Princeton	15,506,821	3,278,752	21.1	27.15	100,255	7,807	73,265
Central New Jersey Total	60,452,450	11,594,572	19.2	26.31	531,938	416,894	743,649
New Jersey Total	156,124,812	31,794,195	20.4	26.45	1,565,799	284,264	1,597,066

Source: CBRE Research, Q4 2018.

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.

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

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

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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.