

NEW JERSEY MEDICAL OFFICE MARKET

SECOND QUARTER 2017

New Jersey Medical Office Use Continues to Grow Six straight quarters of improved occupancy

Healthcare debate continues

ECONOMY

Employment growth, including health care, continues to surge




Overall employment growth averaged 180,000 through the first six months of 2017, with June experiencing one of the stronger-than-average increases of 222,000 jobs. Through mid-year 2017, job gains have been posted for 81 consecutive months. After an underperforming 1.2% growth grade during the first quarter, Gross Domestic Product (GDP) rebounded during Q2 2017 as economic growth recorded a 2.6% increase. The health care sector continues to support a strong percentage of employment growth. From January through May, health care job growth averaged 21,400 jobs per month, but with an additional 37,000 jobs in June, the monthly average for the first half of 2017 increased to 24,000 new positions. However, the pace is still somewhat behind the average of 32,000 jobs per month through the first six months of 2016. When compared year-over-year, health care job growth has increased 2.3%.

The health care sector has been the predominant force in the New Jersey labor market. From 1990 through 2016, 213,200 new healthcare jobs were added, while all other private sector employment has had a net increase of 190,100 jobs. Slow and steady health care job growth has ensued thus far in 2017, up 1.2% year to date after a stronger 2016 which experienced a 2.5% increase. Growth over the past 12 months equals an increase of 1.2%. The industry is changing rapidly, including continued hospital mergers in New Jersey. Most recently, JFK Health of Edison joined the Hackensack Meridian Health network earlier this year.

VACANCY

Slow but steady improvement

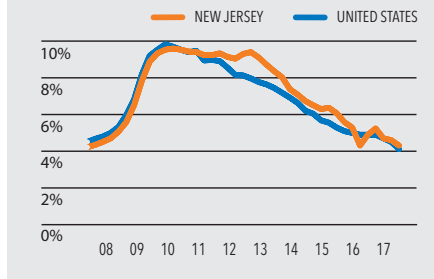
The medical office market continued to tighten during the first six months of 2017. Consecutive quarters of vacancy improvements to begin the year follows a year when occupancy levels tightened every quarter. As of the end of Q2 2017, the overall vacancy rate for medical office space was 13.4%, compared to 13.7% as of year-end 2016 and 14.1% during the same quarter last year. It is the market's lowest vacancy rate since Q3 2014. Somerset supplanted Ocean as the county with the lowest vacancy rate, 5.8% as of Q2 2017.

MEDICAL OFFICE TRENDS	
5-YEAR TREND	SECOND QUARTER
<p>VACANCY</p> 	<p>13.4%</p> <p>Lowest since Q3 2014</p>
<p>ABSORPTION</p> 	<p>19,751 SF</p> <p>Positive 9 of 10 quarters</p>
<p>RENTAL RATE</p> 	<p>\$23.80 PSF</p> <p>Increases in central New Jersey</p>
<p>UNDER CONSTRUCTION</p> 	<p>333,692 SF</p> <p>Space being converted</p>
<p>JOB GROWTH-HEALTHCARE</p> 	<p>+200 jobs</p> <p>Slow and steady</p>

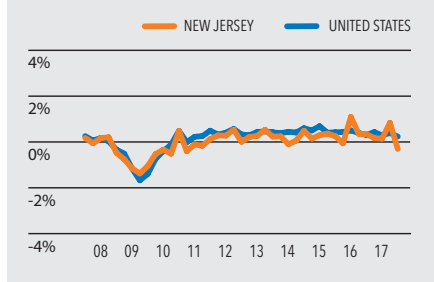
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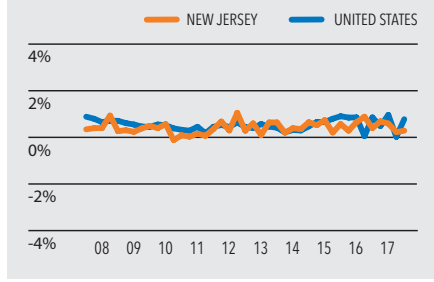
UNEMPLOYMENT RATE



ANNUAL JOB GROWTH – ALL INDUSTRIES



ANNUAL JOB GROWTH – HEALTHCARE/ SOCIAL ASSISTANCE



ABSORPTION

Activity stronger than previous six months

Since the beginning of 2016, seven of the twelve counties studied in northern and central New Jersey have accumulated more than 100,000 SF of positive net absorption of space in medical office buildings. Two additional counties experienced more than 90,000 SF of increased occupancy levels. For the first six months of 2017, 113,195 SF was absorbed in total, compared to 90,997 SF the previous six months. Morris County led the way thus far in 2017 with 33,151 SF of positive net absorption through six months while Union County suffered the largest setback as 24,263 SF was returned to the market on a net basis. On a quarterly basis, Bergen and Essex were the only counties which experienced significant negative net absorption during Q2 2017. As for leasing activity, Bergen County led the way in northern New Jersey while Ocean County was the most active in the central part of the region.

RENTAL RATES

Increased rates in central New Jersey

After consecutive \$0.31 PSF increases in consecutive quarters, the overall asking rent for space in medical office buildings decreased slightly during the most recent quarter. Still, the average asking rate of \$23.80 PSF as of Q2 2017 remains higher when compared to \$23.70 at the close of 2016 and \$23.62 at the same time a year ago. The average is also \$0.76 higher than the post-recession low of \$23.04 PSF during Q2 2013 but is still far off from regaining pre-recession levels. Average rents have been bolstered by strong increases in Mercer, Middlesex and Somerset counties during the past six months.

OUTLOOK

Medical condos being considered

Medical office owners, as well as traditional office building owners who can convert some of their space for medical use, continue to benefit as recent lease transactions indicate that tenants are paying higher rents for new space. Many medical practices are even considering purchasing medical office condos. Going forward, both national and local attention continues to be paid to the American Healthcare Act, where Senate agreement on reform still appears to be a long way off. Some metrics suggest that many in New Jersey may lose coverage should the legislation pass as it is currently proposed.

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METHODOLOGY

The information in this report is the result of a compilation of information on medical office properties located in northern and central New Jersey. This report includes single-tenant, multi-tenant and owner-user medical office properties, 5,000 SF and larger.



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