

# NEW JERSEY MEDICAL OFFICE MARKET

FOURTH QUARTER 2016

## Market Completes Strong Year Occupancy Gains For All Four Quarters

Vacancy rate a full point lower than a year ago

### ECONOMY

#### Health insurance changes sure to affect job growth

While the total number of jobs added in the U.S. for December were less than anticipated, 2016 was a strong year for the labor market as slightly more than two million new jobs were added. Jobs have expanded for 75 consecutive months, lowering the nation's overall unemployment rate to 4.7%. Wage growth, which has not accompanied employment growth, finished the year by posting a solid gain. Gross Domestic Product, which had been somewhat sluggish during this expansion, increased 3.5% during Q3 2016, its best reading in two years. The healthcare and social assistance sector led job growth in December, adding a total of 63,000 new jobs, and as employment increased by 2.6% for 2016, the industry experienced its best two-year job growth since 2007-2008, pre-recession. Policy changes to the Affordable Care Act, however, will most certainly impact health care employment.

The healthcare industry continues to grow in New Jersey. Despite suffering net losses through much of the first half of 2016, job gains were reported in three of the final four months. As a result, the healthcare and social assistance sector averaged 0.8% job growth for the year. The sector accounted for 18% of employment growth in the State, an impressive figure when considering many sectors reported losses. While all eyes will be on Washington D.C., continued job increases are expected, and anticipated to be more comparable to the 2.0% annual growth rate experienced from 2012-2015.

### VACANCY

#### Finishing off a strong year

For the fourth consecutive quarter, the vacancy rate for medical office space declined in New Jersey. It was the first time since 2003 that occupancy levels improved every quarter of a calendar year. As of Q4 2016, the vacancy rate stood at 13.7%, comparing favorably to 13.8% the previous quarter and 14.7% year-over-year. In fact, nine of 12 counties have lower than average levels of vacancy. However, rates in Hunterdon and Mercer counties are above 30%, increasing the overall average. Ocean was the strongest county as only 5.7% of space remains unoccupied.

### MEDICAL OFFICE TRENDS

5-YEAR TREND	FOURTH QUARTER
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#### VACANCY



**13.7%**

Improved four straight quarters

#### ABSORPTION



**16,655 SF**

Positive 7 of 8 quarters

#### RENTAL RATE



**\$23.70 PSF**

Strong quarterly increase

#### UNDER CONSTRUCTION



**484,900 SF**

Conversions contributing

#### JOB GROWTH-HEALTHCARE



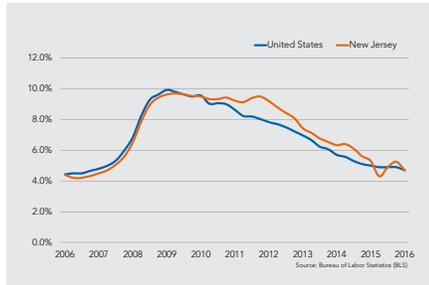
**+2,600 jobs**

Strong second half of year

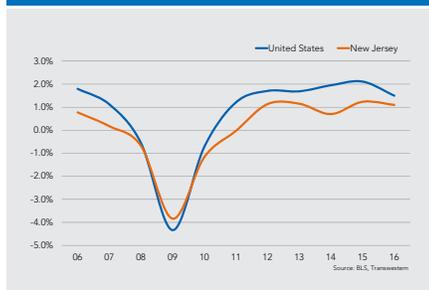
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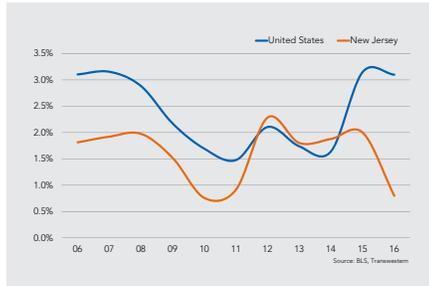
## UNEMPLOYMENT RATE



## ANNUAL JOB GROWTH – ALL INDUSTRIES



## ANNUAL JOB GROWTH – HEALTHCARE/ SOCIAL ASSISTANCE



## ABSORPTION

### Third consecutive year of improvement

Increased leasing by smaller tenants helped lead improved occupancy levels during Q4 2016. Activity was positive for the seventh time in the past eight quarters as 16,655 SF was absorbed. In total during 2016, 321,921 SF was absorbed, the highest 12-month total since the quarter ending Q1 2008. Net absorption has now been positive for three consecutive years. Monmouth County was the most active during the quarter and year, recording 62,664 SF and 135,933 SF, respectively. The biggest news came when Memorial Sloan Kettering opened their new cancer center in Middletown. The New York-based hospital began redeveloping the former Lucent Technologies facility in 2014. Tenant demand has also been consistent in Ocean County, while Middlesex County suffered the largest loss in occupancy during the quarter. Overall increased demand has spurred new development. As of Q4 2016, nearly 500,000 SF was under construction.

## RENTAL RATES

### Has demand finally put pressure on rents?

Rents were higher in seven of 12 counties, increasing the overall average by \$0.31 during the past three months to \$23.70 PSF. This was the largest quarterly increase in nearly eight years. While still lower than \$23.89 PSF when compared year-over-year, it appears that consistent demand during the past three years has finally encouraged landlords to increase asking rents in some markets. Passaic and Union counties have experienced the greatest increases quarterly and year-over-year as recently listed space is commanding higher rents.

## OUTLOOK

### New product to meet demand and drive up rents

The increase in new construction will likely push vacancy rates higher in 2017. However, as demand continues to increase, healthy absorption should ensue. That said, the landscape of the healthcare industry with regards to potential changes to or repeal of the Affordable Care Act will most certainly impact demand for medical office space. In anticipation of sustained demand, many landlords are considering converting aging office product to medical use, especially with ideal locations near hospitals and where expanded parking is possible. As new and renovated product is added to the market, average asking rents will likely increase.

## CONTACT

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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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