

NEW JERSEY OFFICE MARKET

SECOND QUARTER 2017

Suburban Comeback

Office market remains strong

Rents highest Mid-Year Level Since 2001

ECONOMY

Optimism, in general

During the past decade, national economic optimism has climbed from 61.5% to 82.0%, at least according to the latest “C-Suite Survey” of the state’s chief business leadership conducted by the New Jersey Real Estate and Economic Policy Research Consortium. Respondents largely considered the United States business climate to be healthy. The numbers are consistent with job growth, which has posted solid gains throughout 2017, averaging 180,000 jobs per month through June. In addition, recent increases in the professional and business services sector bodes well for the office market. There does, however, remain a shortage of skilled labor in some industry sectors and concerns exist as just 4.3% of those in the workforce are unemployed, and the low participation rate isn’t budging much.

The aforementioned “C-Suite Survey” did not display the same optimism for New Jersey, but there were some positive results. Only 38% of respondents rated New Jersey’s economy as “good” or “excellent,” however, 57% said New Jersey is a “fair” place to do business, up from both five and ten years ago and the same percentage of companies said they would consider expanding their companies in the Garden State. On the employment front, New Jersey continues to outperform the nation. As of May 2017, 4.1% of the State’s workforce remained unemployed, the lowest rate in 16 years and below the national level of 4.3%.

VACANCY

Suburban landlords rewarded for repositioning

With both downtown and suburban submarkets flourishing, New Jersey’s office vacancy rate improved slightly during the second quarter, from 15.1% to 15.0%. From a historical perspective, the percentage of unoccupied inventory is at its lowest level since December 2009, six months following the Great Recession. Outside of the Newark and Hudson Waterfront downtown markets, New Jersey is largely considered suburban and its office stock has dramatically improved. In turn, property owners are now reaping the benefits of their repositioning initiatives. Over the past 12 months, 14 of the 19 suburban submarkets in northern and central New Jersey have increased occupancy levels.

TRENDLINES

5-YEAR TREND CURRENT QUARTER

VACANCY



15.0%

Slight improvement

ABSORPTION



14,687 SF

Increase in transaction volume

ASKING RENT



\$26.42 PSF

Transit markets push upward

RBA DELIVERED



45,000 SF

Additional construction planned

AVERAGE OFFICE SALE PRICE



\$169 PSF

Value add opportunities

JOB GROWTH



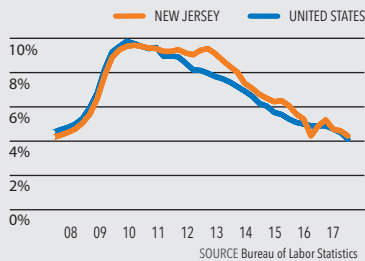
-12,900 jobs*

Private sector contraction
* thru May

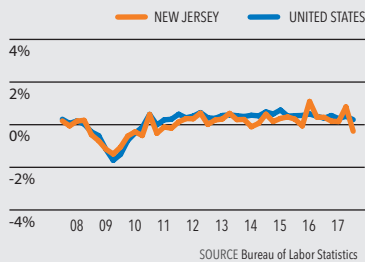
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SECOND QUARTER 2017

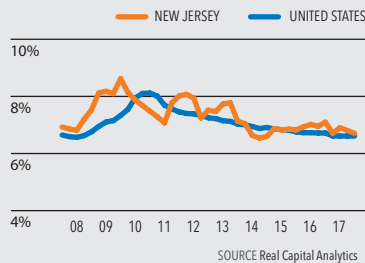
UNEMPLOYMENT RATE



PAYROLL JOB GROWTH



CAP RATES



ABSORPTION

Small and mid-size tenants filling space

While downtown Hudson Waterfront remains perhaps the strongest area of the State, positive net absorption occurred in 13 of 19 suburban submarkets during the quarter. Although much of the younger population wants to live downtown, many employers remain inclined to choose a location that suits its existing employee base, which means finding suitable space in the suburbs. During the past 12 months, more than 2.7 million square feet of space has been absorbed, marking the second-highest year-over-year total since 2006.

Second-quarter leasing velocity in New Jersey outpaced the first quarter, with new deals making up two-thirds of the transactions. Insurance firms Guardian Life Insurance of America and Travelers Insurance Company each signed leases for greater than 50,000 square feet, the medical industry and business services sector helped fill the smaller and mid-sized gaps. The two insurance company leases were signed in the red-hot Monmouth East and Morristown Region submarkets, respectively, including Guardian's commitment to bring several hundred jobs to the highly-coveted Bell Works complex in Holmdel.

New Jersey continues to shine as a life science destination as several pharmaceutical firms completed recent deals throughout the state, including Otsuka Pharmaceutical, Celgene, Johnson & Johnson, Rising Pharmaceuticals and Zoetis. The largest lease of the second quarter was a renewal signed in central New Jersey, as AT&T agreed to remain in Piscataway. The largest new lease occurred when Newark Public Schools committed to relocating its headquarters from 2 Cedar Street to 765 Broad Street. The move is anticipated to save taxpayers approximately \$2 million per year.

Notable Lease Transactions

| COMPANY | ADDRESS | SQUARE FEET | LEASE TYPE |
|------------------------------------|------------------------------------|-------------|------------|
| AT&T, Inc. | 30 Knightsbridge Road, Piscataway | 252,500 | Renewal |
| Newark Public School District | 765 Broad Street, Newark | 100,500 | New |
| Guardian Life Insurance of America | 101 Crawfords Corner Road, Holmdel | 90,000 | New |

New Jersey Office Market Indicators by Class

| PROPERTY CLASS | INVENTORY | RENTABLE AREA DELIVERED | QUARTER NET ABSORPTION | ANNUAL NET ABSORPTION | DIRECT VACANCY | SUBLEASE VACANCY | TOTAL VACANCY | AVERAGE RATE PSF |
|----------------|--------------------|-------------------------|------------------------|-----------------------|----------------|------------------|---------------|------------------|
| Class A | 153,744,904 | 45,000 | 98,456 | 1,444,937 | 15.2% | 1.6% | 16.8% | \$28.88 |
| Class B | 99,141,679 | 0 | (83,769) | 1,306,837 | 11.5% | 0.7% | 12.2% | \$22.45 |
| TOTAL | 252,886,583 | 45,000 | 14,687 | 2,751,774 | 13.8% | 1.2% | 15.0% | \$26.42 |

RENTAL RATES

Increases in seven of the past eight quarters

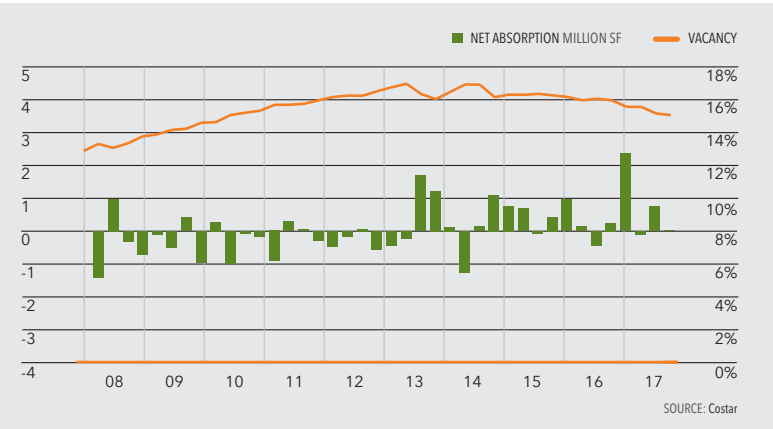
Renewed interest in New Jersey's suburban office properties combined with consistently strong leasing activity downtown has pushed average asking rents for office space to \$26.42 per square foot, nearly \$2 higher than it was just five years ago. The figure represents the market's highest mid-year level since 2001. Rents continue to climb in transit-accessible markets such as Woodbridge/Metro Park, Morristown and the Hudson Waterfront, where the average asking rent exceeded \$40 per square foot for the first time with some leases exceeding \$50 per square foot. However, in some cases, small and mid-size tenants are eschewing the downtown markets in favor of lower rents in the suburbs, where property owners have invested significant capital to redevelop and modernize buildings to meet the standards of today's tenant.

INVESTMENT MARKET

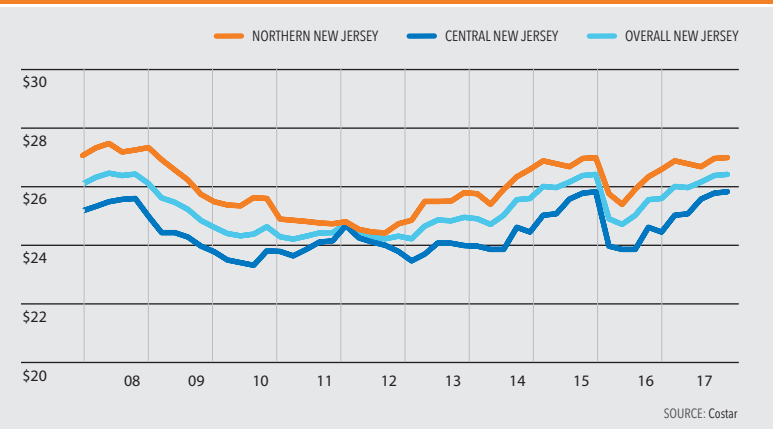
Capital driving redevelopment

Investor focus is turning to the office market, perhaps in part due to the opportunity for redevelopment which is becoming less available in the other supply-constrained asset classes. Ample capital remains available and is driving the revitalization of the suburban office campus. In fact, properties which had previously been acquired for redevelopment are being flipped. For example, Rubenstein Partners and Vision Real Estate Partners sold the +/-550,000 SF Crossings at Jefferson Park in Whippany to the property's largest tenant, Barclays Capital, for \$69 million. The joint venture acquired the property for \$25 million in 2012 and proceeded with a multi-million-dollar capital improvement program. In a similar scenario, Marcus Partners sold 500 Plaza Drive in Secaucus to Manulife US REIT for \$115 million. The seller acquired the asset for \$69 million less than three years earlier before significantly upgrading it.

NEW JERSEY NET ABSORPTION AND VACANCY



NEW JERSEY AVERAGE ASKING RENTAL RATES



OUTLOOK

Redevelopments reign

The office market in New Jersey continues to thrive off creativity and diversity. The reimagined and modernized office product is making for a tremendous draw and the large variety of industries active in the state continues to play a significant role in the heightened leasing activity. While the suburbs are gaining strength, the Garden State's communities with train stations are thriving, attracting residents who desire easy access to NJ Transit and Manhattan. However, with infrastructure upgrades scheduled for this summer, there are some concerns about commuting delays. Going forward, redevelopments are expected to reign as repositioned assets are increasingly in play from both a leasing and capital markets perspective. ■

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SECOND QUARTER 2017

New Jersey Office Market Indicators by Submarket

| SUBMARKET | INVENTORY | RENTABLE AREA DELIVERED | QUARTER NET ABSORPTION | ANNUAL NET ABSORPTION | DIRECT VACANCY | SUBLEASE VACANCY | TOTAL VACANCY | AVERAGE RATE PSF |
|--------------------------|--------------------|-------------------------|------------------------|-----------------------|----------------|------------------|---------------|------------------|
| Bergen Central | 8,205,507 | - | 63,490 | (36,693) | 12.6% | 2.1% | 14.8% | \$27.41 |
| Bergen East | 10,670,681 | - | 73,434 | 68,722 | 10.9% | 0.5% | 11.4% | \$25.62 |
| Bergen North | 11,607,432 | - | (177,671) | (36,356) | 12.0% | 1.1% | 13.1% | \$27.28 |
| Brunswick | 4,678,135 | - | (14,089) | 102,898 | 11.5% | 0.3% | 11.8% | \$27.65 |
| Edison South | 3,925,330 | - | 41,416 | 52,820 | 12.0% | 0.3% | 12.4% | \$21.89 |
| Hudson Waterfront | 23,899,743 | - | 159,528 | 229,606 | 8.0% | 2.4% | 10.4% | \$41.68 |
| Meadowlands | 7,035,119 | - | 33,714 | 233,593 | 14.8% | 1.5% | 16.3% | \$24.93 |
| Monmouth East | 13,658,954 | - | 92,555 | 308,465 | 15.3% | 0.5% | 15.7% | \$25.73 |
| Monmouth West | 3,341,318 | - | 6,965 | 28,417 | 8.3% | 0.2% | 8.5% | \$22.77 |
| Morris West | 3,757,043 | - | 12,151 | 25,125 | 34.0% | 0.1% | 34.1% | \$22.07 |
| Morristown Region | 12,106,895 | 45,000 | 47,082 | 482,099 | 16.4% | 1.1% | 17.1% | \$28.45 |
| Newark/Urban Essex | 19,238,344 | - | (171,501) | (308,093) | 16.0% | 0.5% | 16.5% | \$29.33 |
| Parsippany Region | 19,944,572 | - | 89,135 | 499,383 | 20.3% | 1.5% | 21.8% | \$26.41 |
| Princeton Area | 36,376,370 | - | (197,983) | (339,516) | 13.2% | 1.8% | 15.0% | \$26.12 |
| Route 280/Suburban Essex | 12,287,907 | - | 53,162 | 221,799 | 11.6% | 0.1% | 11.7% | \$25.33 |
| Route 287 South | 11,562,037 | - | (247,989) | 45,731 | 16.9% | 1.4% | 18.3% | \$19.82 |
| Short Hills/Millburn | 4,665,913 | - | (12,962) | 469,625 | 3.8% | 0.6% | 4.4% | \$35.79 |
| Somerset/I-78 East | 22,854,936 | - | (297,963) | (150,840) | 10.6% | 2.4% | 13.0% | \$27.31 |
| Union/Parkway | 5,865,569 | - | 19,894 | 107,194 | 14.2% | 0.4% | 14.6% | \$23.56 |
| Wayne/Paterson | 10,248,575 | - | 426,496 | 468,201 | 18.2% | 0.4% | 18.6% | \$22.79 |
| Woodbridge/Metro Park | 6,956,203 | - | 15,823 | 279,594 | 14.7% | 1.1% | 15.8% | \$32.48 |
| TOTAL | 252,886,583 | 45,000 | 14,687 | 2,751,774 | 13.8% | 1.2% | 15.0% | \$26.42 |

CONTACT

Matthew Dolly
 Director of Research
 973.947.9244
 matthew.dolly@transwestern.com

METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in northern and central New Jersey. This report includes single-tenant, multi-tenant and owner-user Class A & B office properties 10,000 SF and larger.



300 Kimball Drive, 1st Floor
 Parsippany, NJ 07054

T 973.947.9200 F 973.947.9199
 www.transwestern.com/northeast