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2Q23

# Northern New Jersey Office Market Overview



**NEWMARK**

# Market Observations

## Economy

- While the region’s labor market remains on relatively solid footing and the annual job growth rate continues to exceed the national average, cracks are beginning to show amid persistently high inflation and increasing interest rates.
- Unemployment has remained steady, with New Jersey trending below the national average for much of the last two years.
- The education and health sector led all industries in regional annual job growth, marking two straight years with the largest growth by industry. Besides financial activities, office-occupying industries saw slight losses after posting positive in 2022.

## Major Transactions

- NJ Transit is relocating from its existing headquarters on Raymond Boulevard in Newark, to a 407,173 square-foot space at 2 Gateway Center in Newark.
- The 601W Companies purchased Harborside 1,2 and 3 in Jersey City from Veris Residential, Inc. for \$420.0 million during the second quarter of 2023. The Class A buildings total over 2 million square feet, marking the largest sale of the quarter.
- EpiBone is relocating from Brooklyn to 95 Greene St. in Jersey City after receiving up to \$3.5 million over seven years in Emerge tax credits.

## Leasing Market Fundamentals

- Absorption in the second quarter of 2023 totaled negative 1.1 million square feet, bringing the year-to-date total to over negative 3 million square feet.
- The construction pipeline increased to 379,350 square feet as construction began at the 260,000 square-foot M West property in Morristown.
- Leasing activity in the first half of the year reached 5.1 million square feet, 27.9% below the output from one year ago.
- The vacancy rate fell slightly to 18.5% in the second quarter of 2023, which is still significantly above pre-pandemic levels

## Outlook

- Uncertainty reigns in the macroeconomic outlook. Occupiers and investors alike will approach deals with greater caution as a result, which will impact leasing and investment activity.
- Availability is not expected to decline in the third quarter of 2023, with additional large spaces anticipated to come to market.
- Office to industrial conversions will continue to impact the office market as these projects increase throughout 2023.

1. Economy
2. Leasing Market Fundamentals



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# Economy

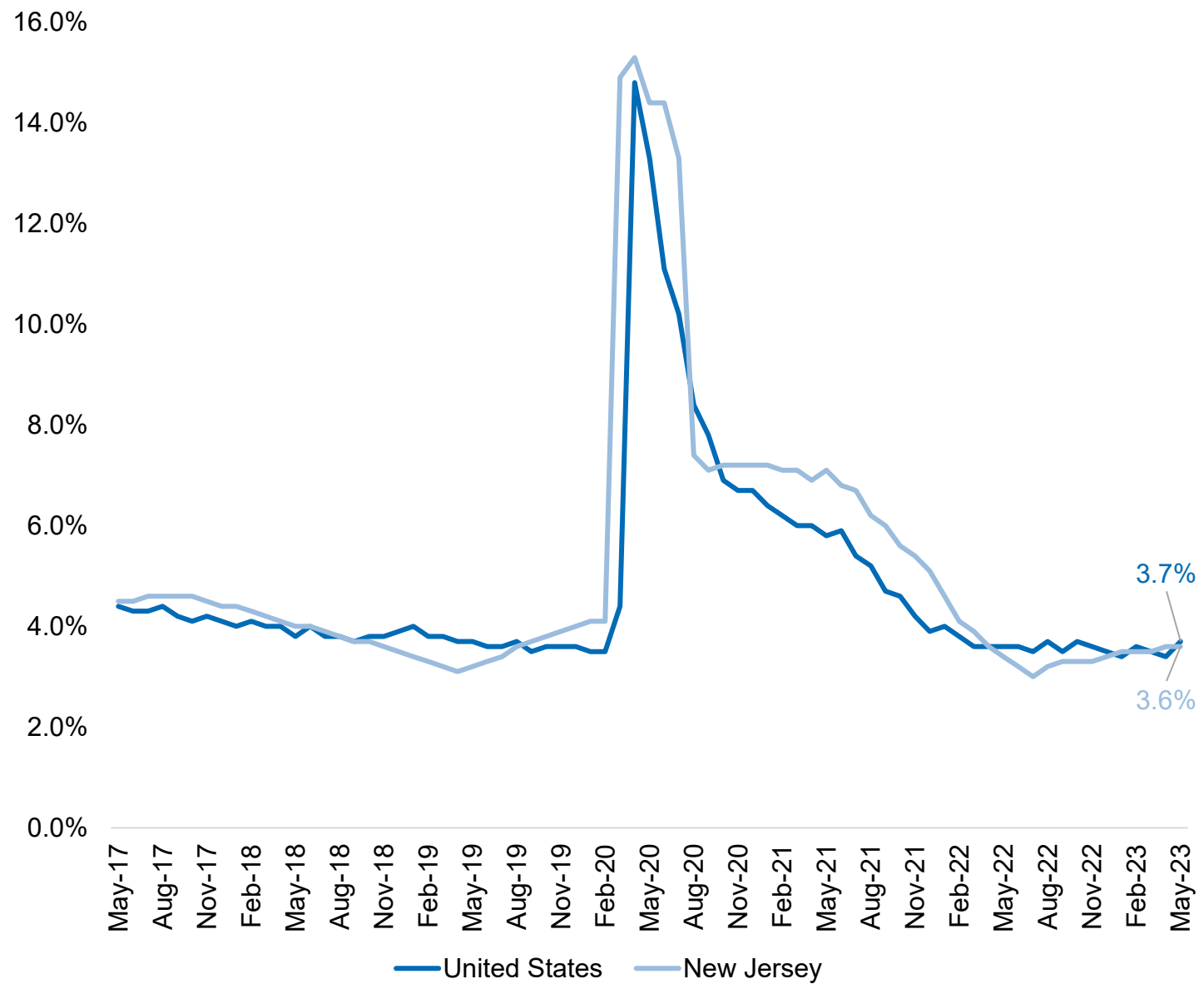




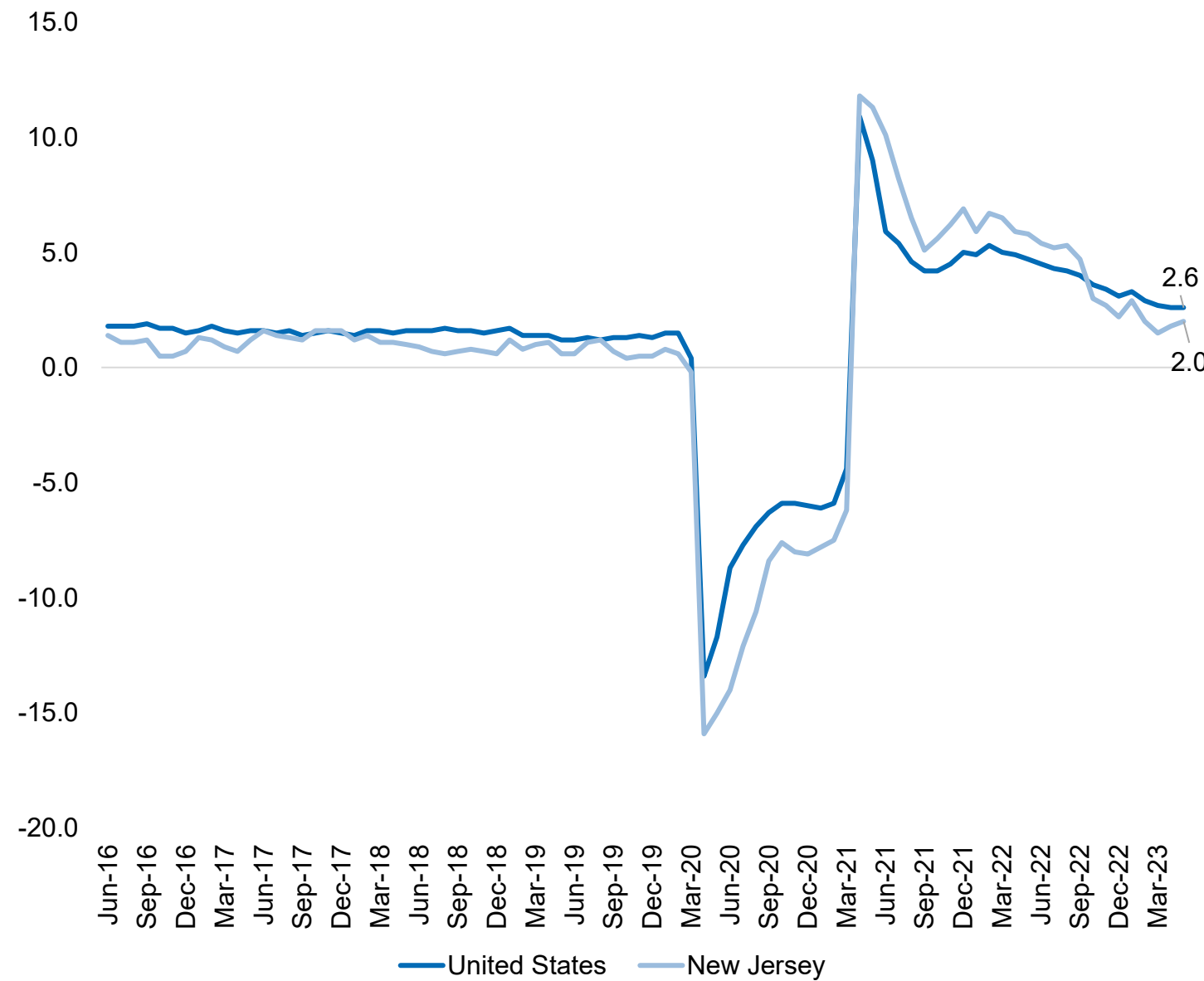
# Metro Employment Trends Signal a Slowing Economy

While the region’s labor market remains on relatively solid footing, cracks are beginning to show amid persistently high inflation and increasing interest rates. Unemployment has remained steady, and New Jersey remains slightly below the national average.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change



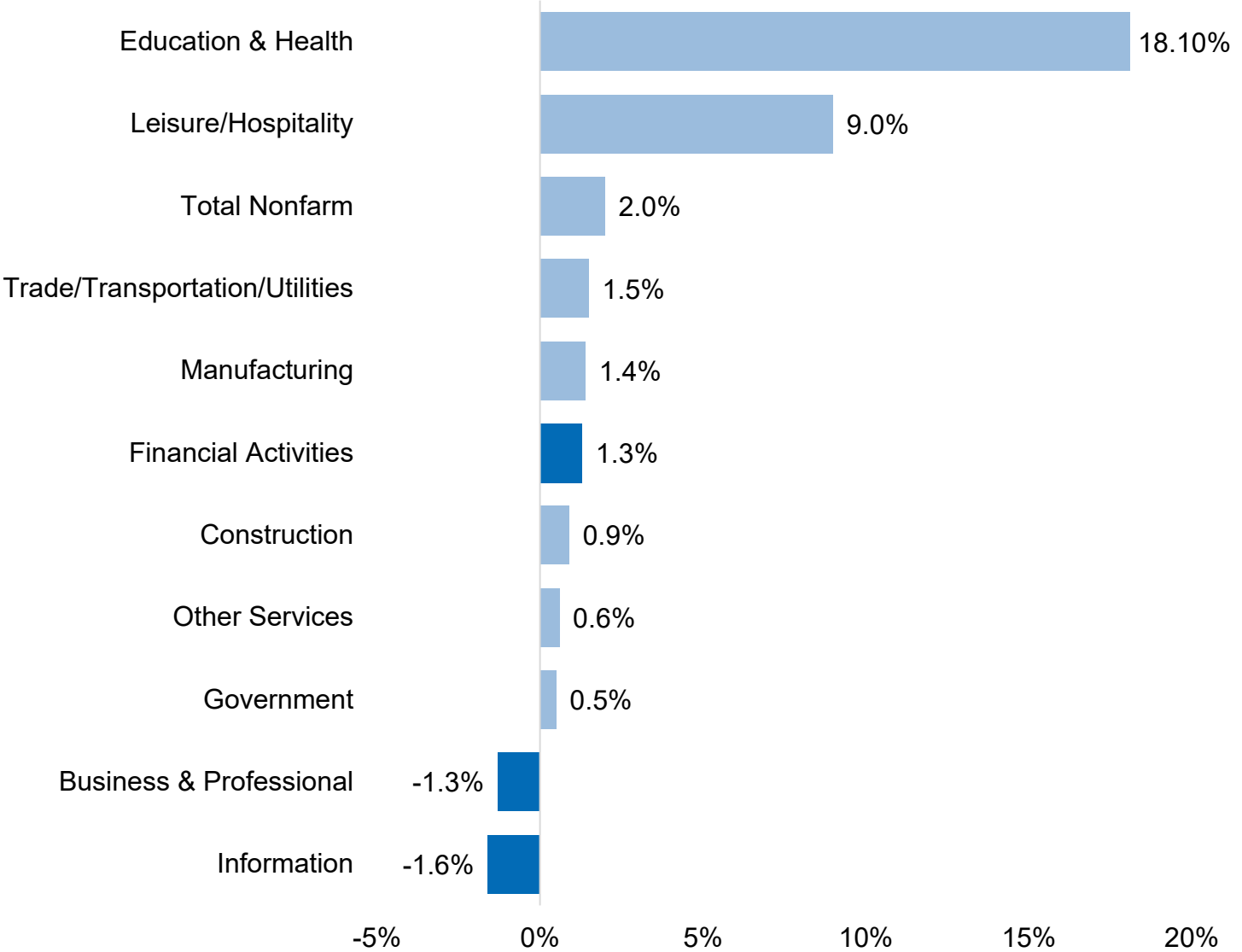
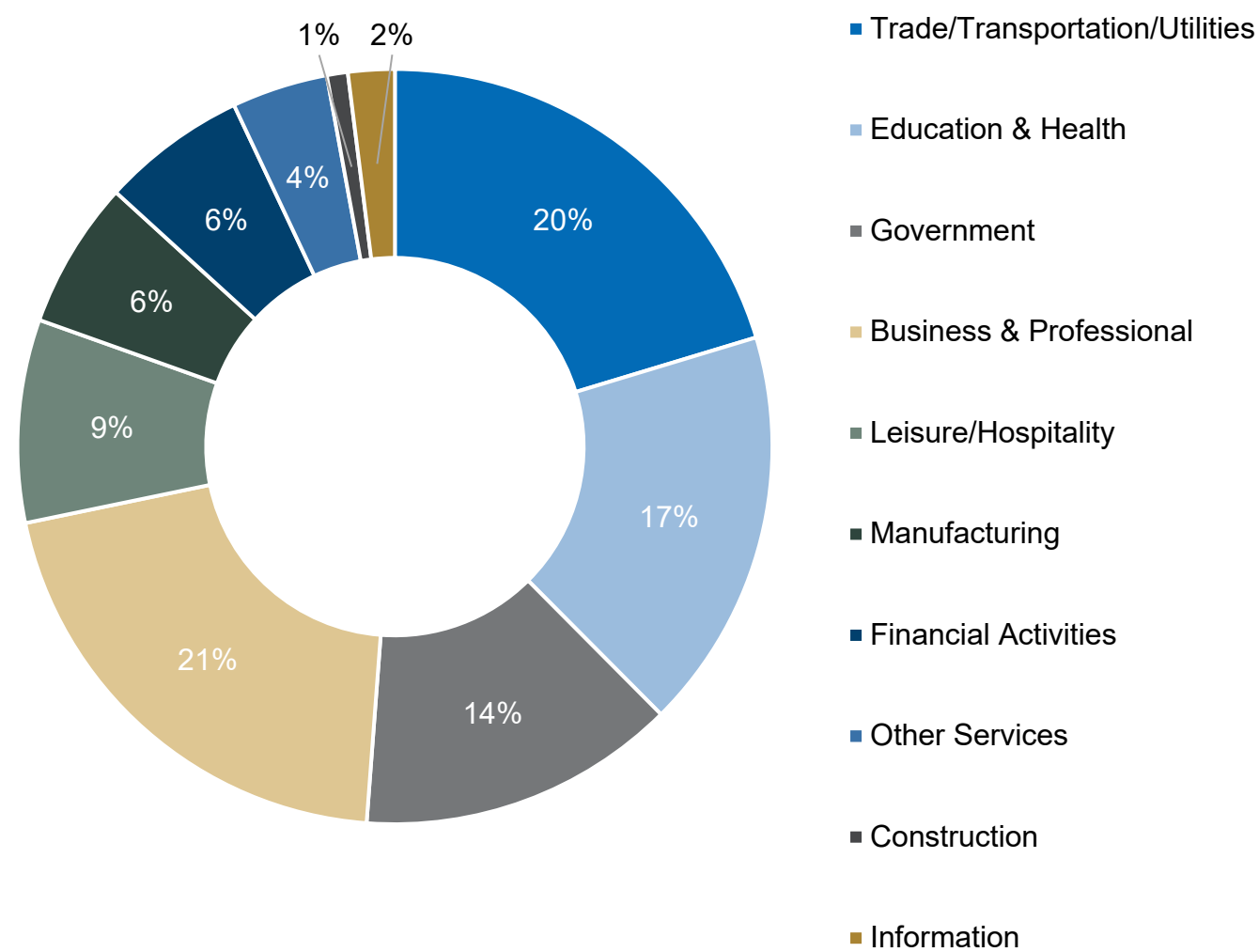
Source: U.S. Bureau of Labor Statistics, New Jersey

# Job Growth Driven in Large Part by Services Still Making Up for Pandemic Losses

The education and health sector led all industries in regional annual job growth, marking two straight years with the largest growth by industry. Besides financial activities, office-occupying industries saw slight losses after posting positive in 2022.

Employment by Industry, Month 202X

Employment Growth by Industry, 12-Month % Change, May 2023

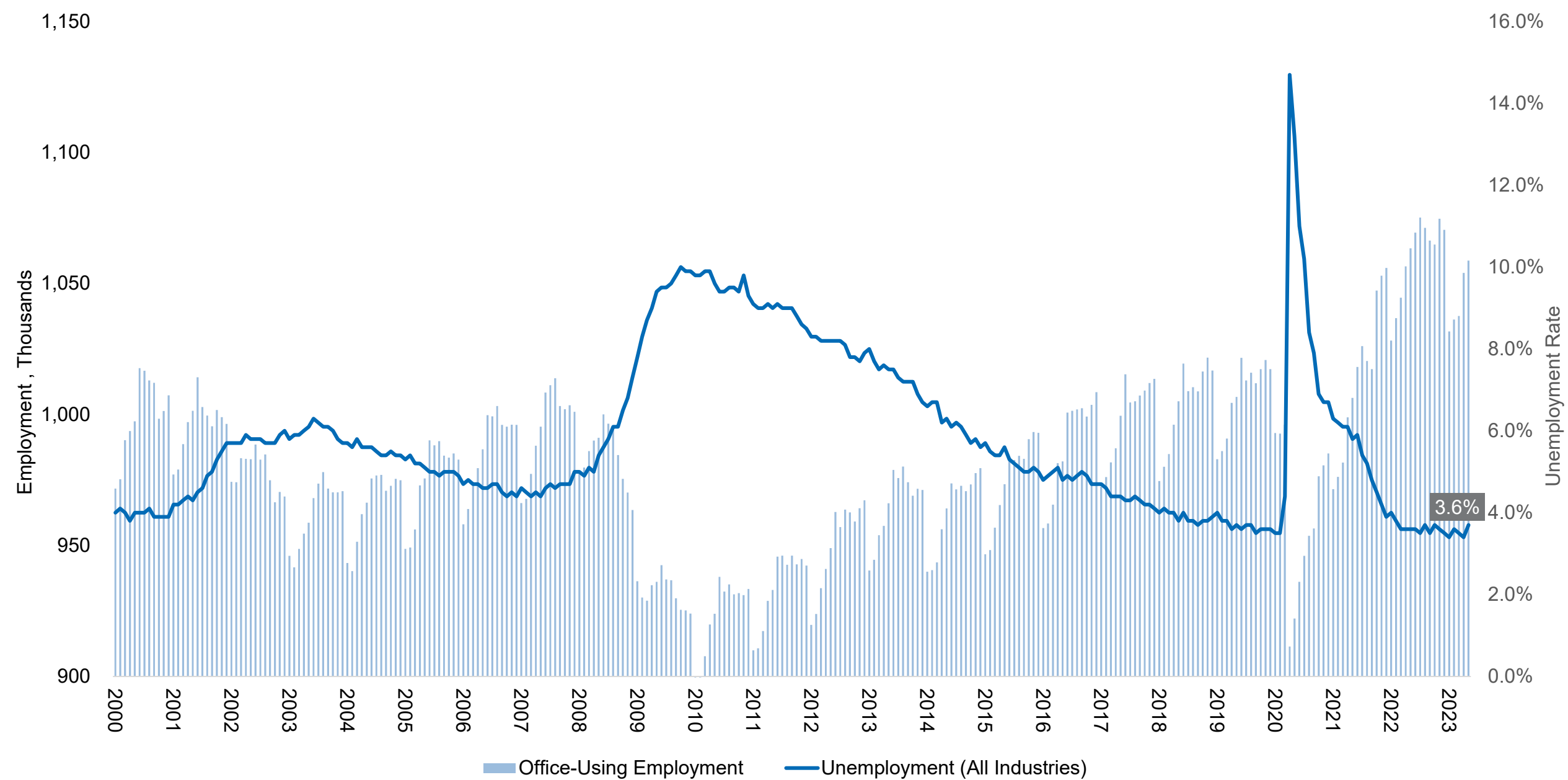


Source: U.S. Bureau of Labor Statistics, New Jersey

# Overall Office-Using Employment Has Rebounded

The number of office jobs has rebounded, surpassing pre-pandemic levels since the second quarter of 2021. While there has been less growth in the office-using industries, unemployment hasn't seen much change since 2022.

Office-Using Employment\* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, New Jersey  
Note: February 2023 data is preliminary.  
\*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.



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2Q23

# Leasing Market Fundamentals

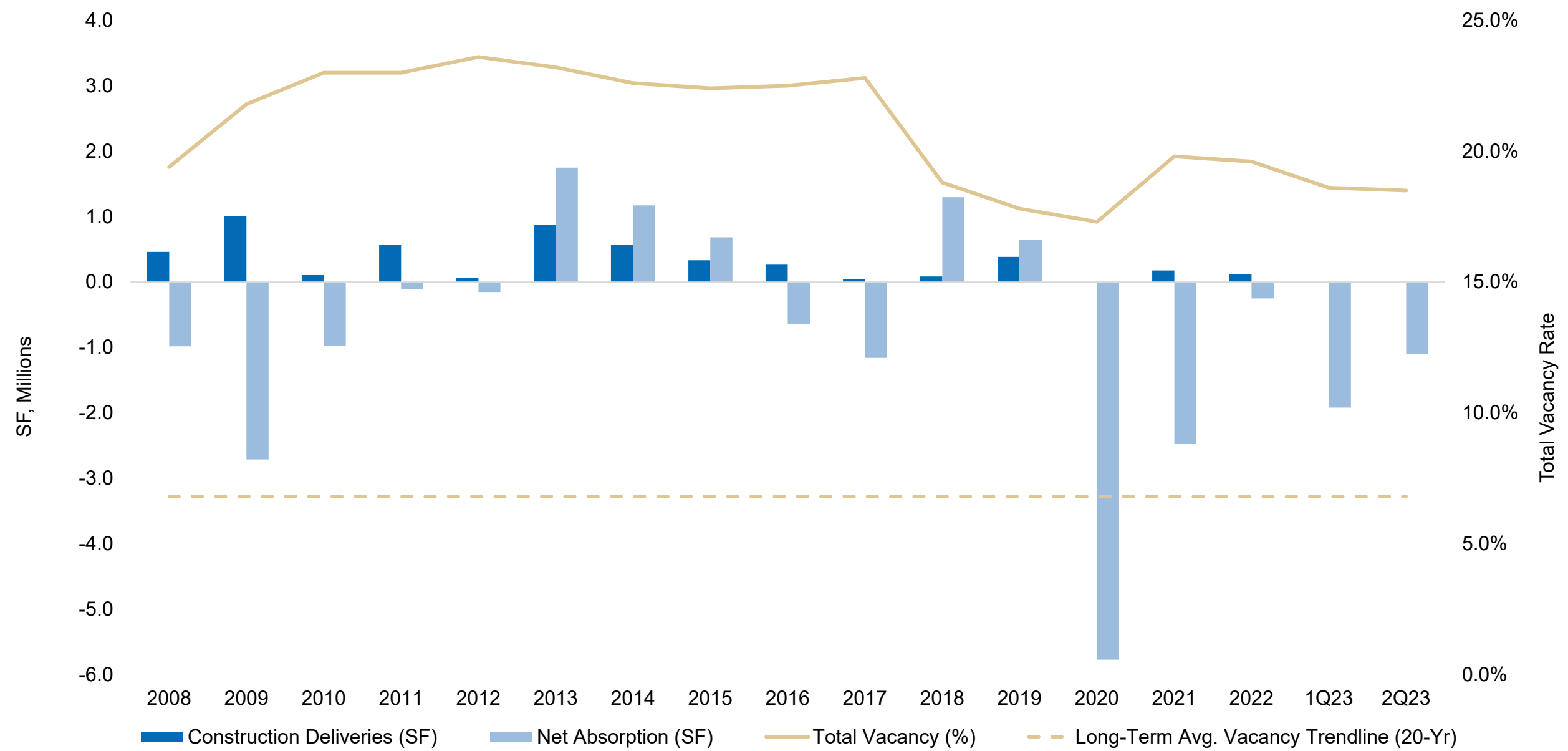




# Vacancy Remains High as Net Absorption Continues Negative

The vacancy rate fell to 18.5% in the second quarter of 2023, which is still significantly above pre-pandemic levels. Absorption fell to over negative 3 million square feet year to date as leasing activity remains limited.

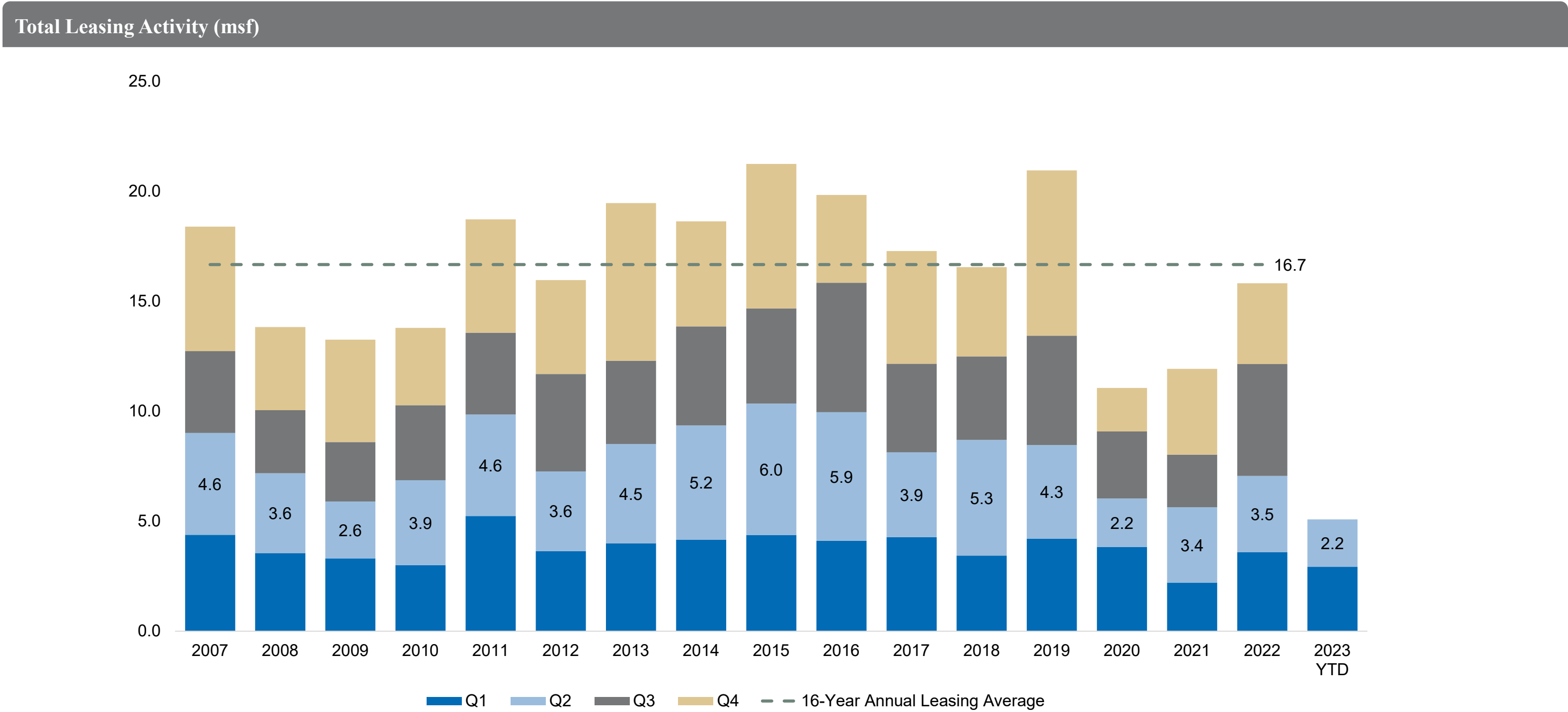
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

# Leasing Activity Has Slowed

Leasing activity in the first half of the year reached 5.1 million square feet, 27.9% below the output from one year ago. There were 10 deals that closed for more than 50,000 square feet during the first two quarters of 2023, compared with 18 deals during the same time period in 2022.



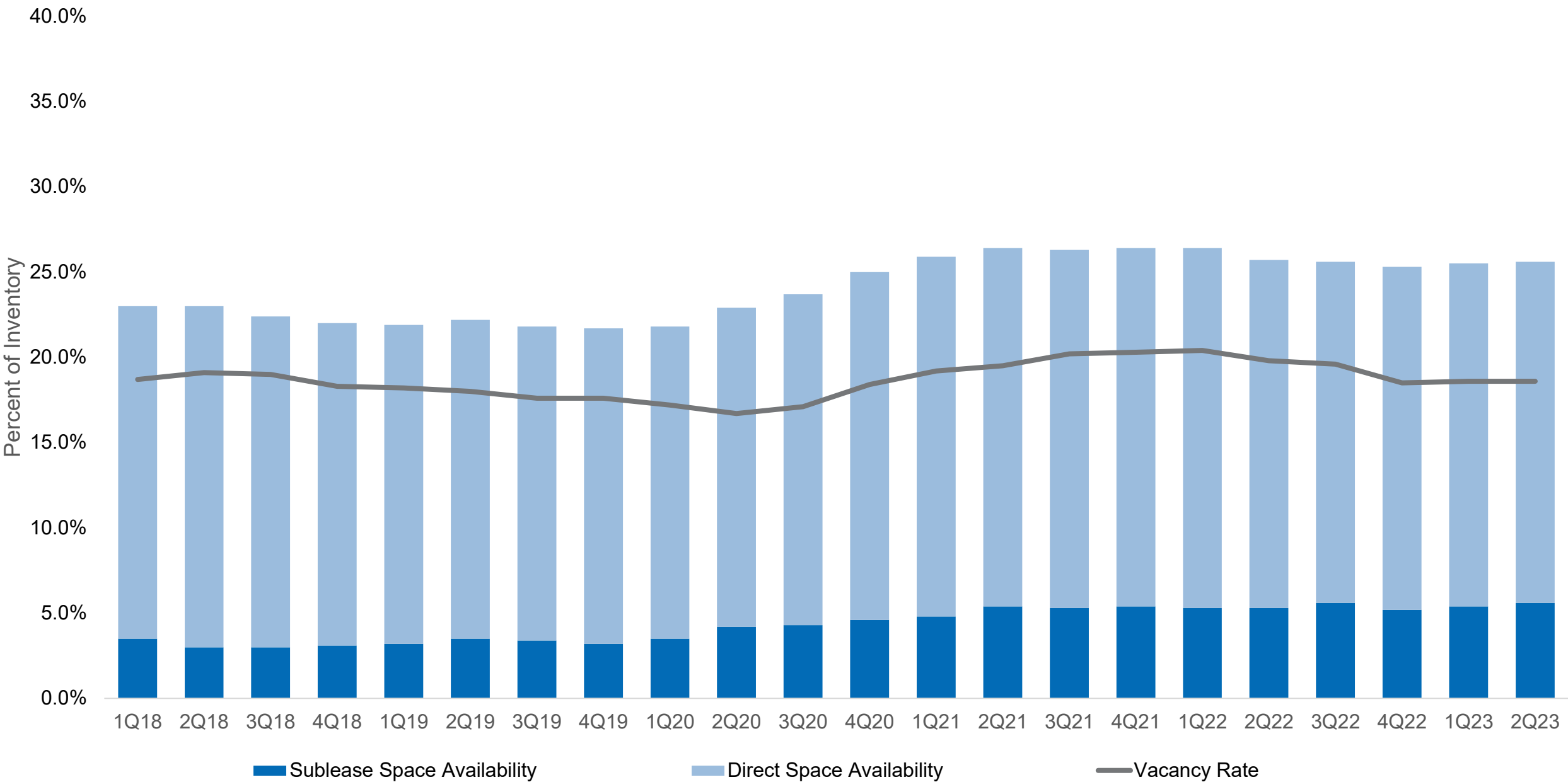
Source: Newmark Research, CoStar



# Availability Continues to Increase While Tenant Demand Drops

Availability increased to 25.6% during the second quarter of 2023, up from 25.4% during the first quarter of 2023. Although this is below 2021 pandemic highs, it's expected that availability will continue to increase, with additional sublease space added and a decline in tenant demand.

Available Space and Tenant Demand as Percent of Overall Market

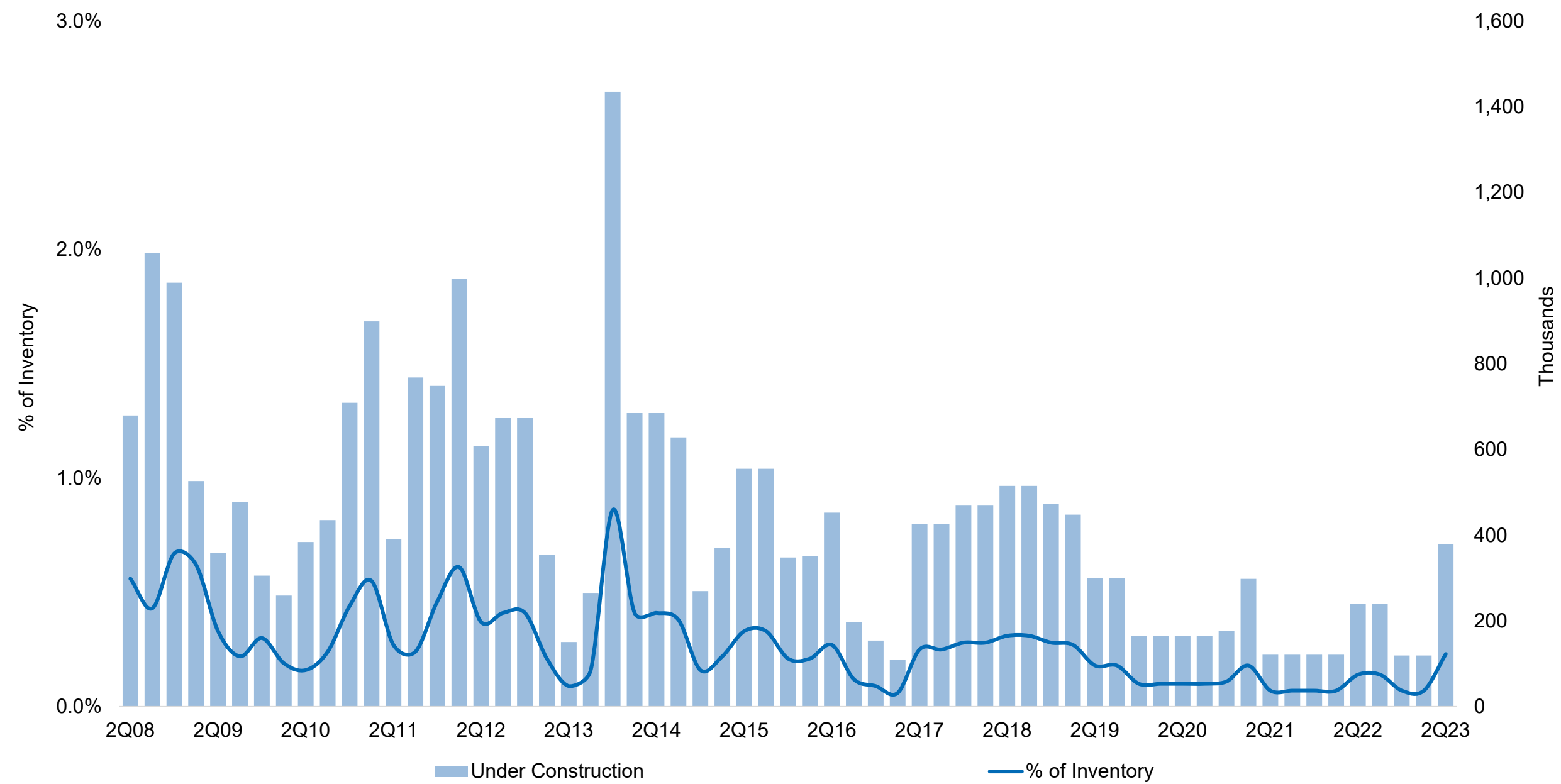


Source: Newmark Research

# New Construction Increases

Under-construction volume increased during the second quarter of 2023 as construction began at M Station West in Morristown. The 260,000 square-foot property at 100 Morris Street is set to deliver in the first quarter of 2024, with Sanofi occupying the entire property.

Office Under Construction and % of Inventory



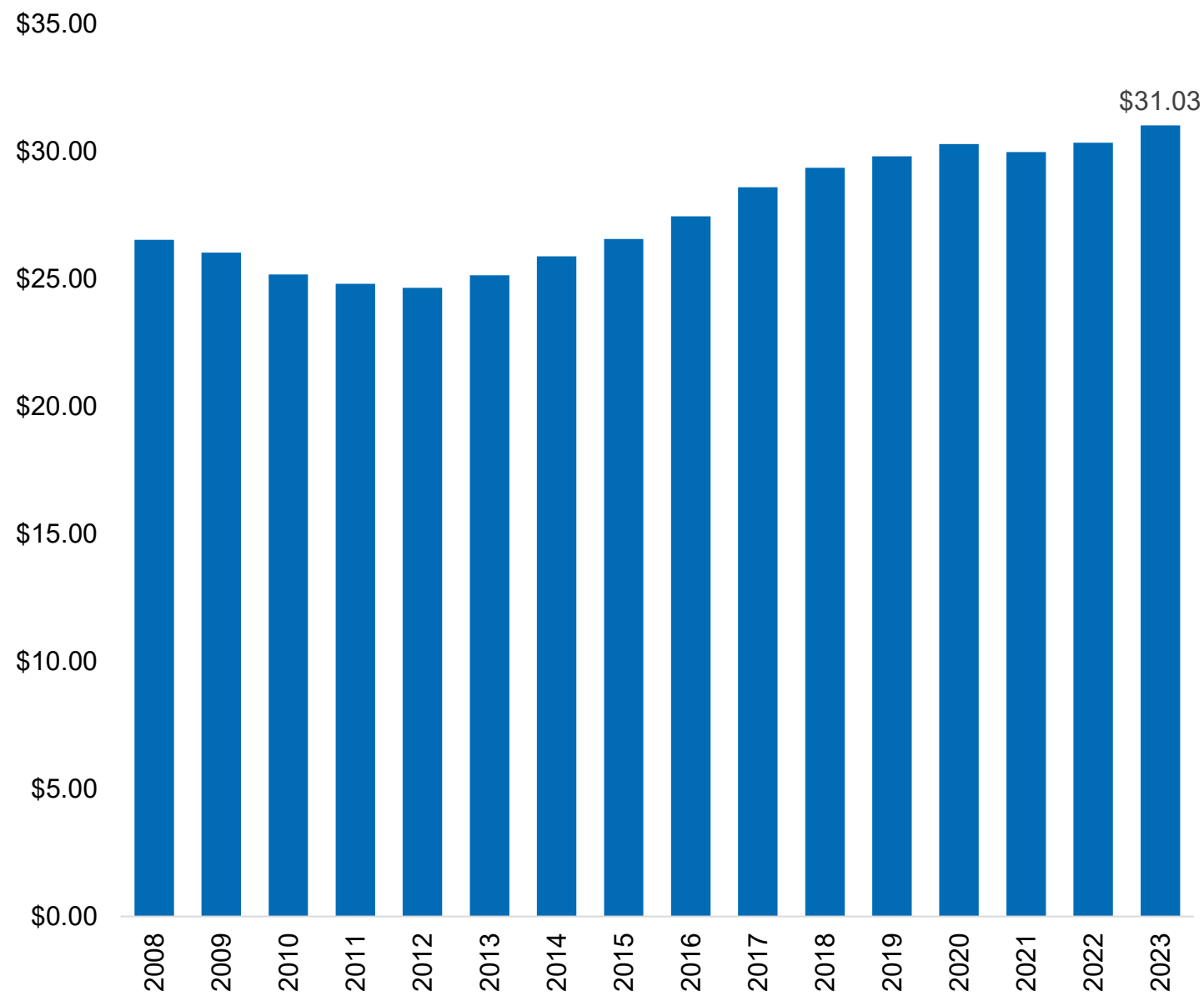
Source: Newmark Research, CoStar



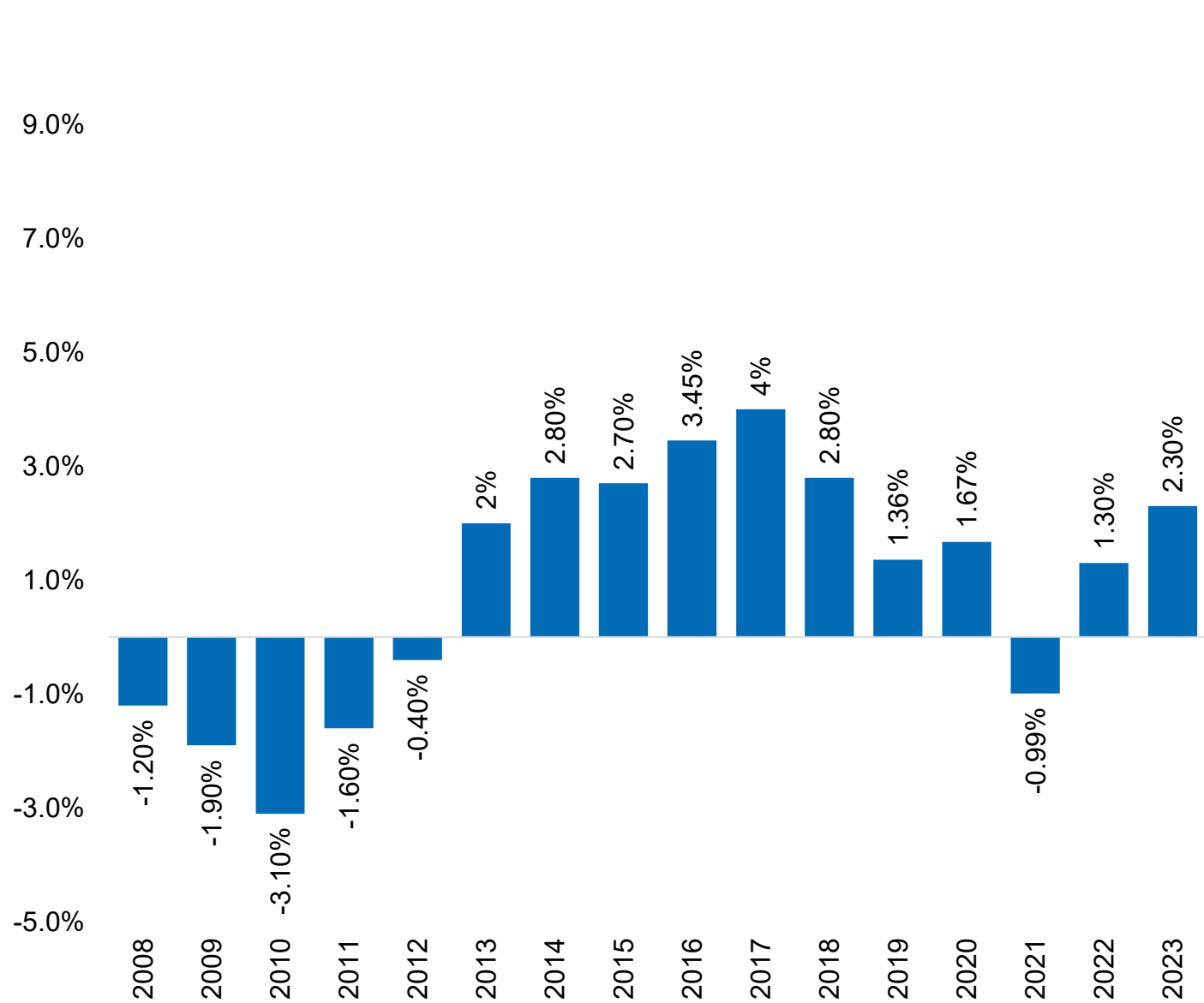
# Rents Continue to Climb

Overall asking rents increased during 2023 to \$31.03/SF, up from \$30.21/SF during the second quarter of 2022. Year-over-year growth thus far in 2023 is 2.30%; however, it's expected that asking rents will decline as space is leased up in high-quality buildings.

Office Average Asking Rent, \$/SF, FS



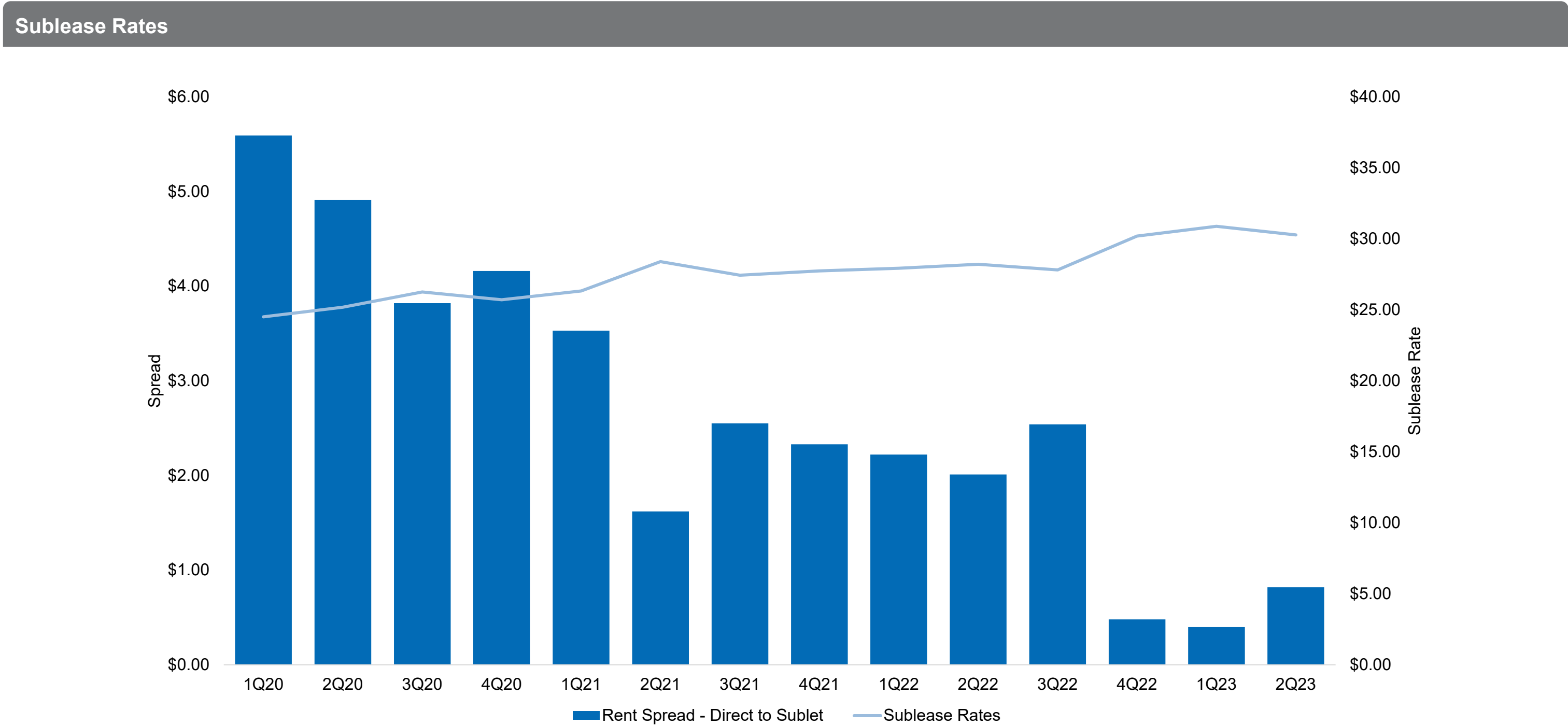
Year-over-Year Asking Rent Growth Rate



Source: Newmark Research, CoStar

# Direct and Sublease Rates Gap Tightens

Sublease rates have increased since a low in the first quarter of 2020, tightening the gap between direct and sublease pricing.



Source: Newmark Research, CoStar



# Leasing Activity Slows

Leasing activity is down from the second quarter of 2022, as demand remains muted. NJ Transit signed the largest relocation of the second quarter of 2023 at 2 Gateway Center in Newark, marking the only relocation greater than 100,000 square feet.

## Notable 2Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
NJ Transit	2 Gateway Center	Newark CBD	Direct Lease	407,173
NJ Transit is relocating to 2 Gateway Center, which is just six-tenths of a mile from their prior headquarters on Raymond Boulevard in Newark.				
Syneos Health	200 Crossing Boulevard	Somerset/I-78	Sublease	57,558
Six-year sublease				
Stifel	305 Madison Avenue	Morristown Area	Direct Lease	53,986
Stifel leased the entire 2 <sup>nd</sup> floor at 305 Madison Avenue, with a 15-year term.				
US Department of State	2 Executive Drive	Bergen East	Direct Renewal	35,783
Renewal for five years in the same footprint.				
EpiBone	95 Greene Street	Hudson Waterfront	Direct Lease	29,489
Relocating from Brooklyn to Jersey City after receiving \$3.5 million in Emerge tax credits over a seven-year period.				

Source: Newmark Research

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*For more information:*

**Lukas Berasi**  
*Research Manager*  
*Northern New Jersey Research*  
lukas.berasi@nmrk.com

**Northern New Jersey**  
201 Route 17 North  
Rutherford, NJ 07070  
t 201-504-5134

**New York Headquarters**  
125 Park Ave.  
New York, NY 10017  
t 212-372-2000

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