

4Q23

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 increased to 4.5%, with New Jersey now trending above the national average of 3.7%. This is due to more residents joining the labor force and fewer residents being employed.
- Regional annual job growth was led by the education and health industries along with the leisure and hospitality industries, marking two straight years with the largest growth by industry. The financial activities industries saw minimal increases, while all other office-occupying industries saw losses after posting positive in 2022.

Major Transactions

- Bank of America renewed and expanded to 547,962 SF at 525 Washington Blvd. in Jersey City. The 15-year lease was the largest deal during the quarter and in 2023.
- The Nokia Bell Labs 360,000-SF prelease at 110 Plaza St. in New Brunswick was the largest lease during the fourth quarter of 2023. They will be occupying the first 11 floors of the property, which is set to deliver in early 2025.
- Crown Acquisitions purchased 61 S. Paramus Rd. in Paramus from Onyx Equities for \$55.9 million during the fourth quarter of 2023. The Class A property totals 278,704 SF, marking the largest sale of the quarter.

Leasing Market Fundamentals

- Absorption in the fourth quarter of 2023 totaled negative 541,807 SF, bringing the year-to-date total to over negative 4.3 million SF.
- The under-construction pipeline increased to 1,021,147 SF as construction began at the 260,000 SF M West property in Morristown. The property is set to deliver during the end of the first quarter of 2024.
- Leasing activity in the fourth quarter of 2023 improved, reaching 2.9 million SF; a 54.3% increase after a lackluster third quarter. There were seven deals that closed for more than 50,000 SF during the fourth quarter of 2023, compared with just three deals during the prior quarter.
- The vacancy rate decreased by 20 basis points to 19.0% in the fourth quarter of 2023, which is still substantially above pre-pandemic levels.

Outlook

- Uncertainty persists in the macroeconomic outlook. Occupiers and investors alike will approach deals with greater caution as a result, which will further impact leasing and investment activity.
- Availability is not expected to decline into 2024, as additional large spaces are anticipated to come to market.
- Capital markets should see higher transaction volumes in 2024 as numerous cuts to interest rates are expected.
- Office to industrial and multifamily conversions will continue to impact the office market. These should contribute to a stabilization of the market's currently high availability rate with the potential removal of large available spaces.

1. Economy
2. Leasing Market Fundamentals

4Q23

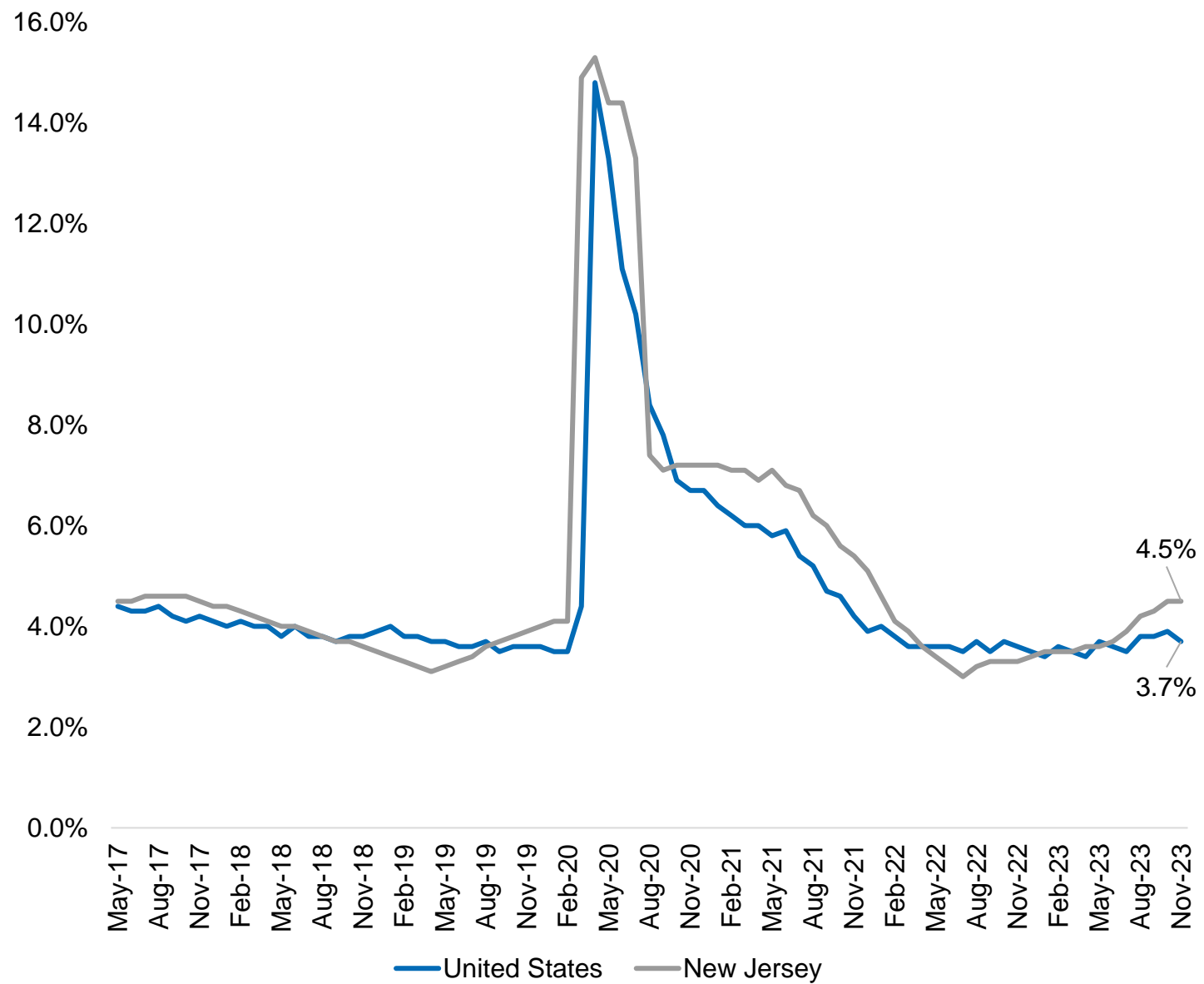
Economy



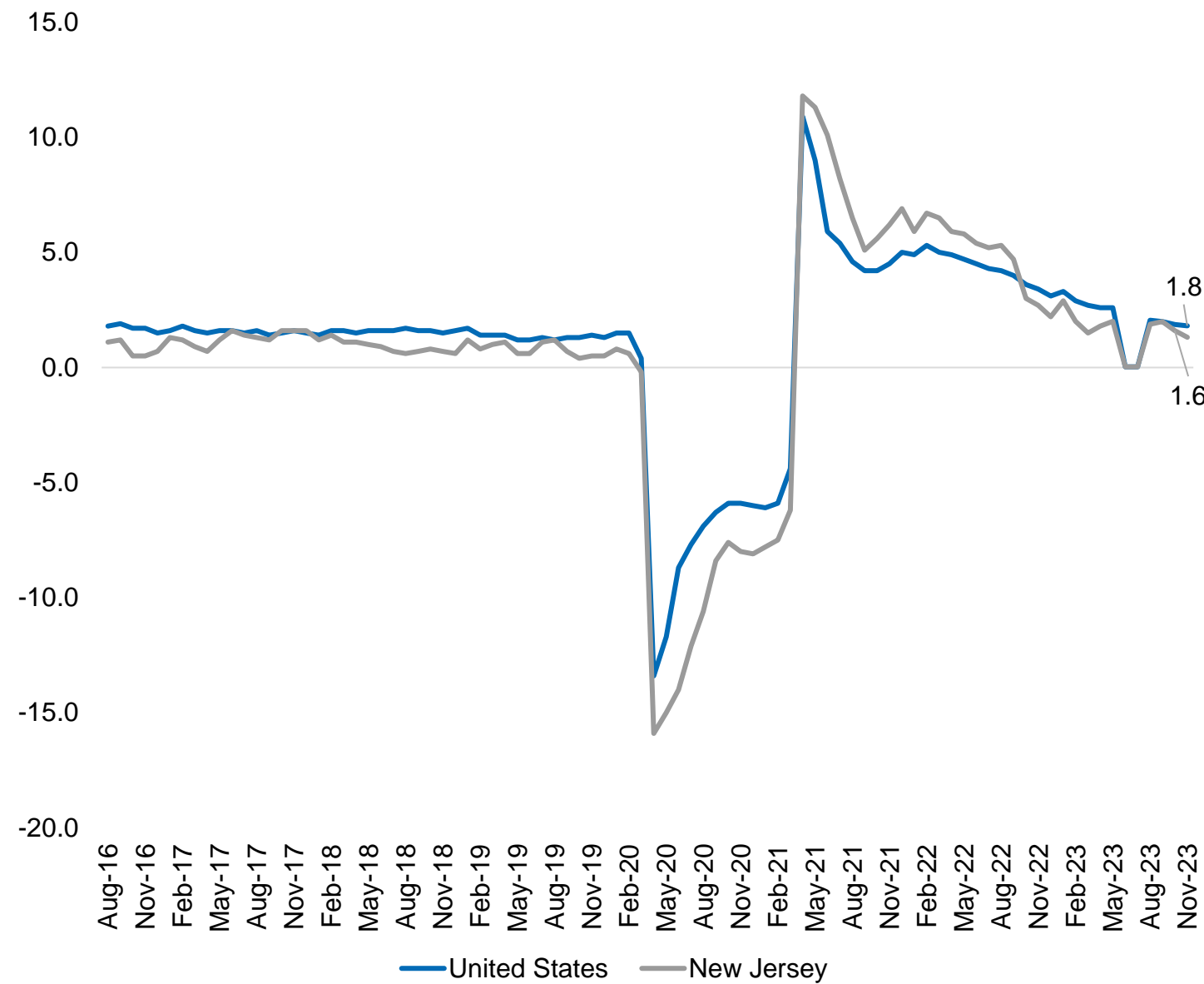
Metro Employment Trends Signal a Slowing Economy

While the region’s labor market remains on relatively solid footing, the annual job growth rate has moved comparably to the national average, continuing a downward trend year-over-year. Unemployment has increased to 4.5%, with New Jersey now trending above the national average of 3.7%.

Unemployment Rate, Seasonally Adjusted



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



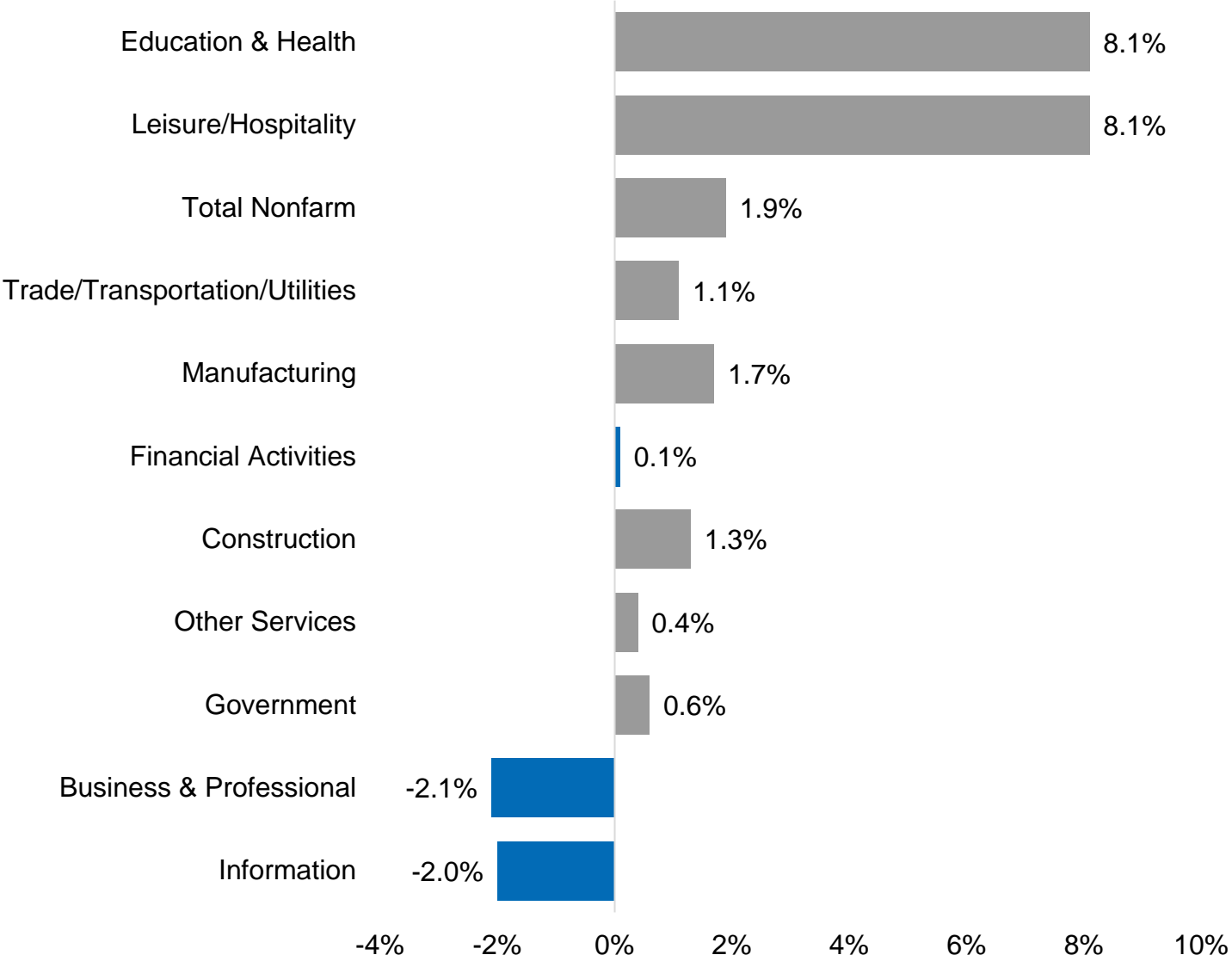
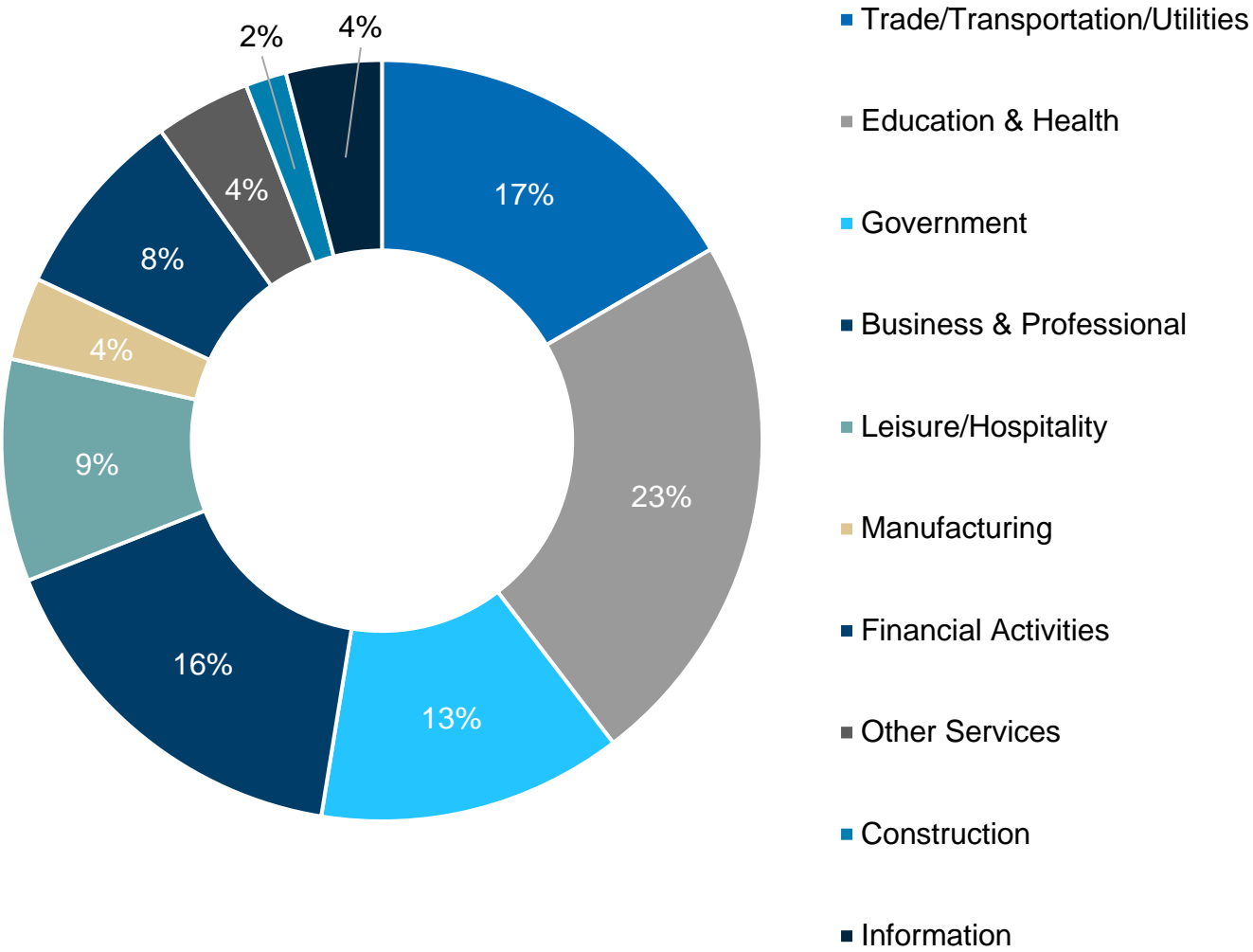
Source: U.S. Bureau of Labor Statistics, New Jersey

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

The education and health sector, along with leisure and hospitality, led all industries in regional annual job growth, marking two straight years with the largest growth by industry. Office-occupying industries saw annual job gains only in the financial activities industries, while layoffs underscored the negative gains in the information industries after posting positive in 2022.

Employment by Industry, November 2023

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

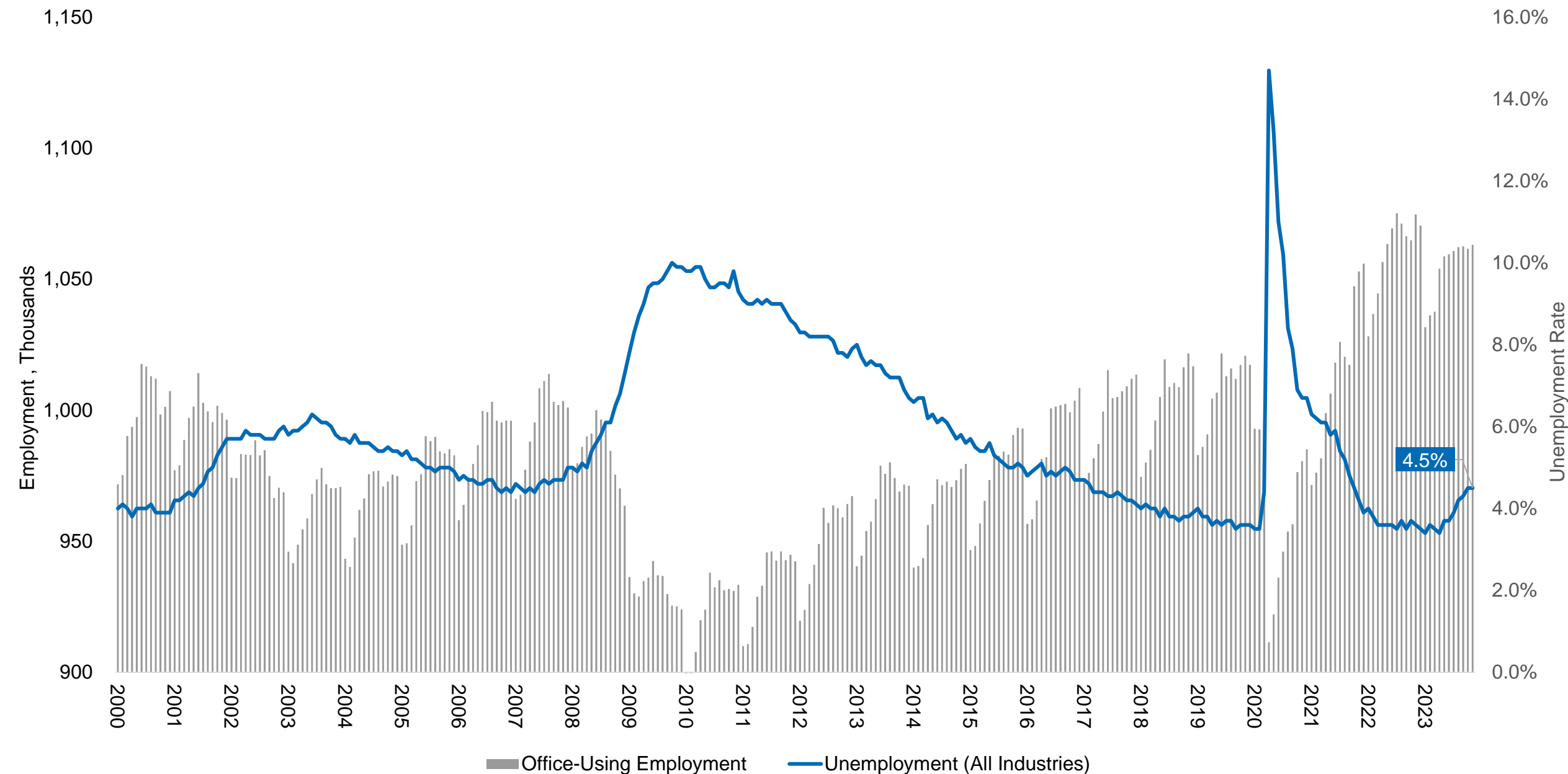


Source: U.S. Bureau of Labor Statistics, New Jersey

Overall Office-Using Employment Has Rebounded

The number of office jobs has rebounded, surpassing pre-pandemic levels since the second quarter of 2021. Unemployment in New Jersey increased to 4.5% in November, while there has been less growth in the office-using industries, except for the financial activities industries.

Office-Using Employment* and Unemployment Across All Industries



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

4Q23

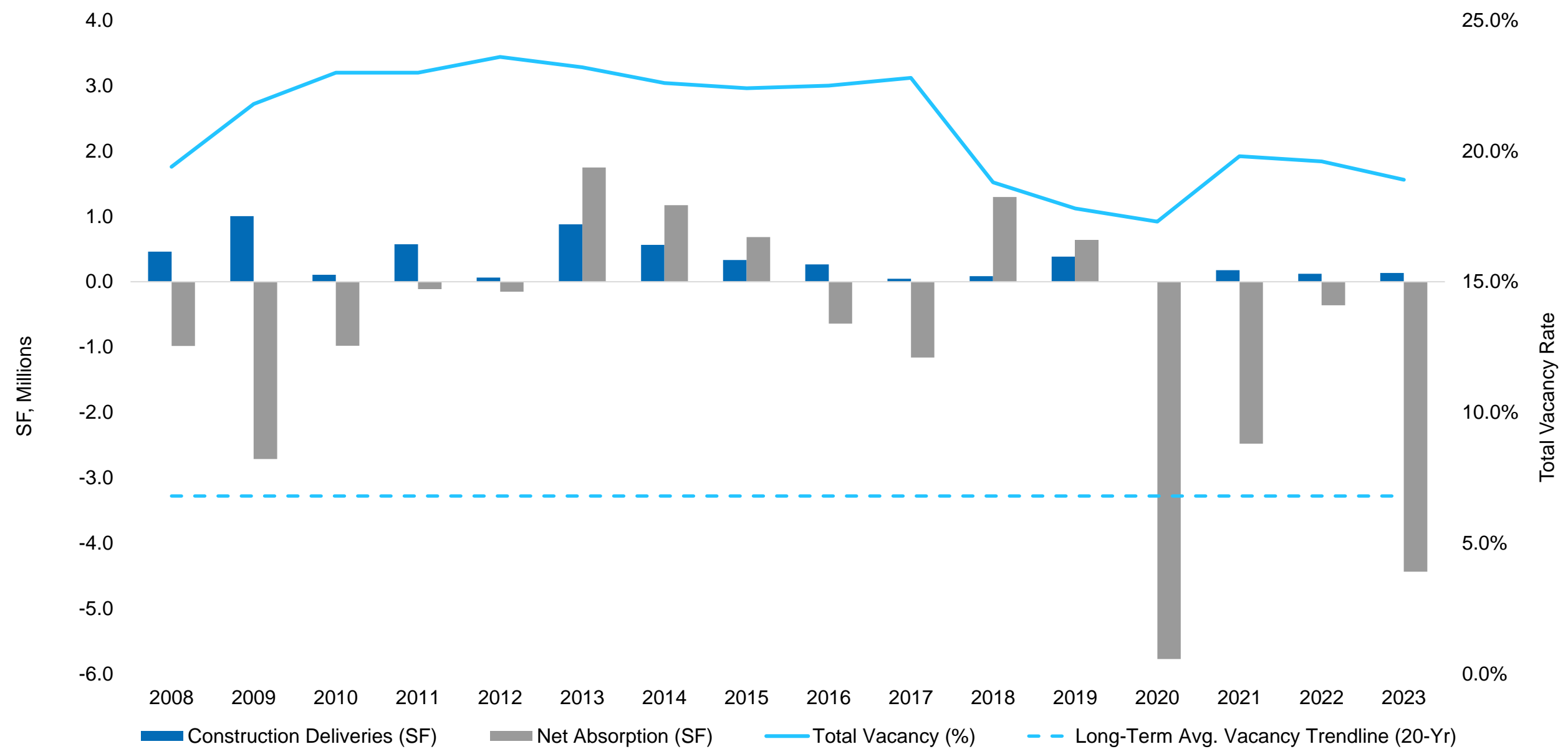
Leasing Market Fundamentals



Vacancy Remains High as Net Absorption Continues Negative

The vacancy rate decreased by 20 basis points to 19.0% in the fourth quarter of 2023, which is still substantially above pre-pandemic levels. Absorption came in negative for the fifth straight quarter, bring 2023 absorption to over negative 4.3 million SF.

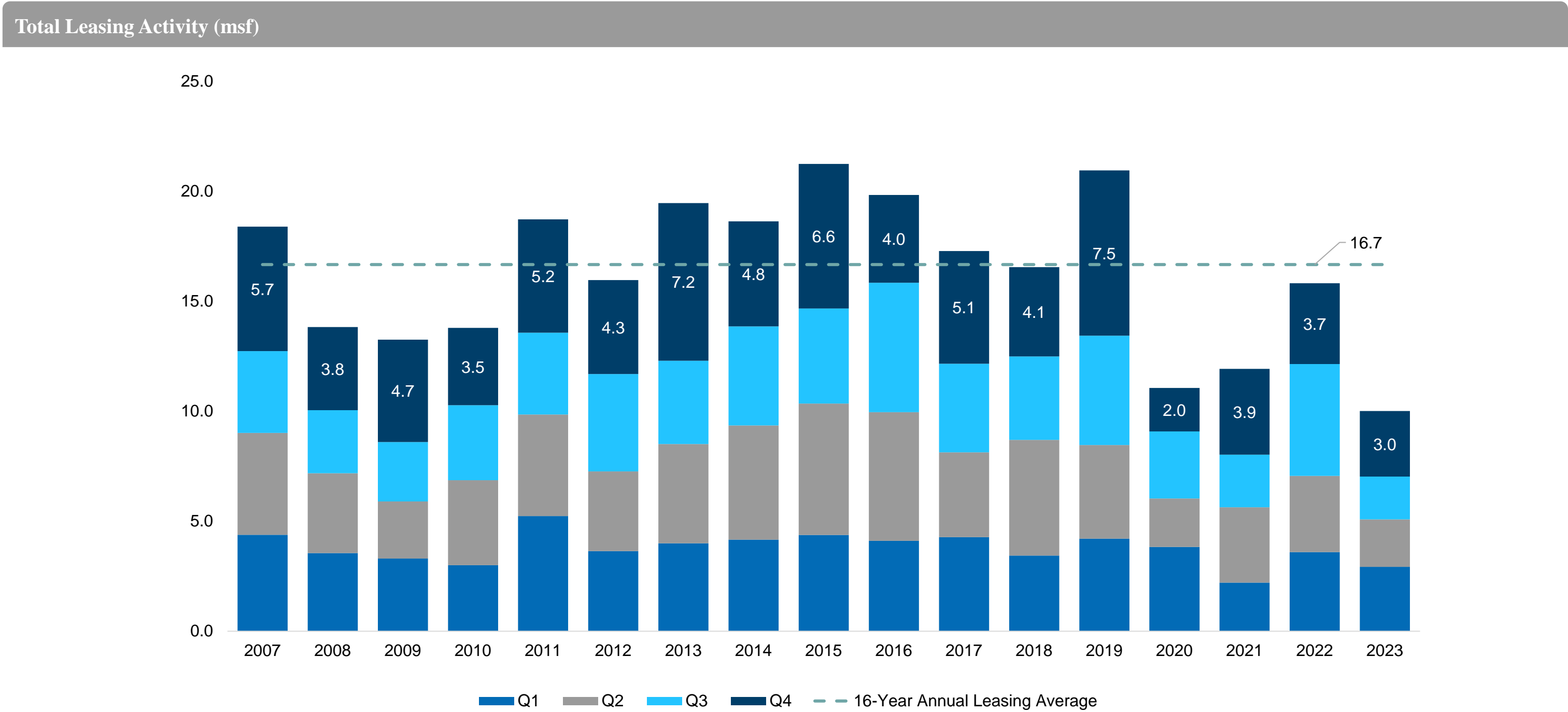
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Leasing Activity Rises

Leasing activity in the fourth quarter of 2023 improved, reaching close to 3 million SF; highlighted by Bank of America's 547,962 SF renewal at 525 Washington Blvd. in Jersey City. There were seven deals that closed for more than 50,000 SF during the fourth quarter of 2023, compared with just three deals during the prior quarter. Class A assets continue to capture significant space commitments despite the impact of hybrid work.

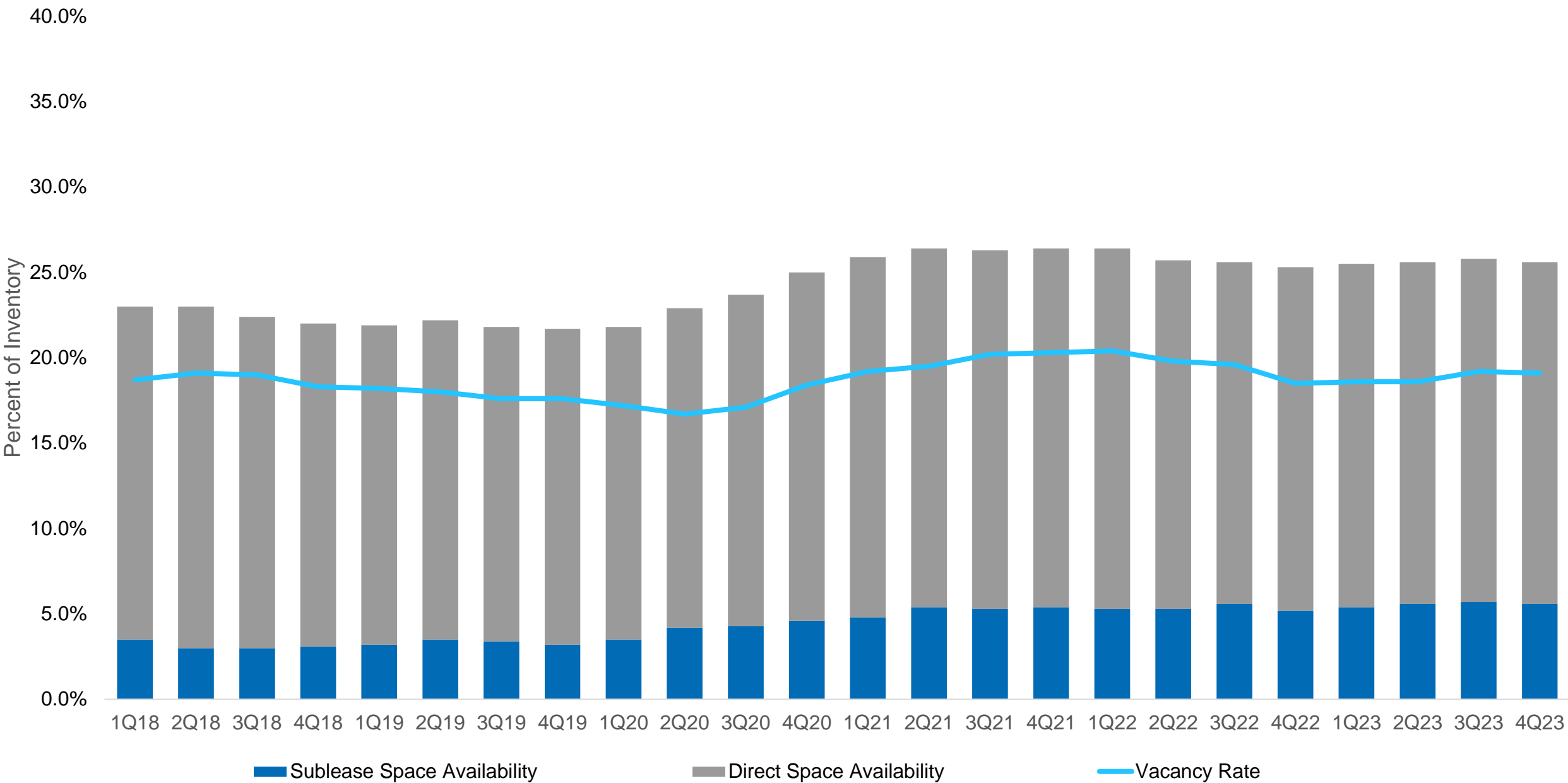


Source: Newmark Research, CoStar

Availability Remains High While Tenant Demand Is Muted

Availability remained high at 25.6% during the fourth quarter of 2023, up from 24.6% during the same time last year. The largest space addition of the fourth quarter of 2023 was a 207,000 SF sublease space put on the market by TD Ameritrade at 70 Hudson St. in Jersey City. It's expected that availability will continue to increase during 2024, with additional sublease space added and a decline in tenant demand.

Available Space and Tenant Demand as Percent of Overall Market

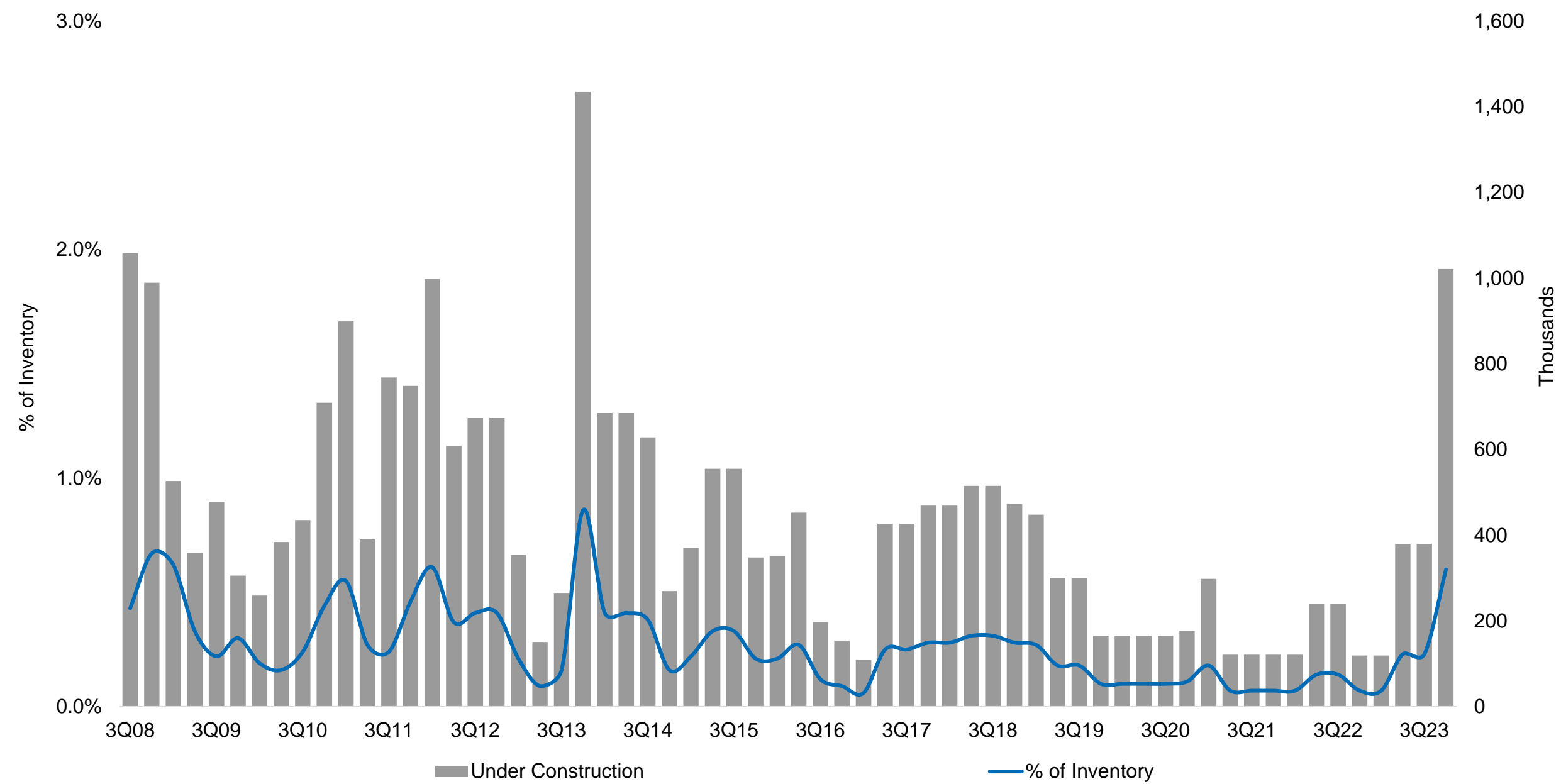


Source: Newmark Research

New Construction Increases

Under-construction volume increased to 1,021,147 SF during the fourth quarter of 2023. Construction is underway at M Station West in Morristown. The 260,000-SF property at 100 Morris St. is set to deliver late in the first quarter of 2024, with Sanofi occupying the entire property. Office assets linked to redevelopment to alternative uses will contribute to a stabilization of the market’s currently high availability rate.

Office Under Construction and % of Inventory

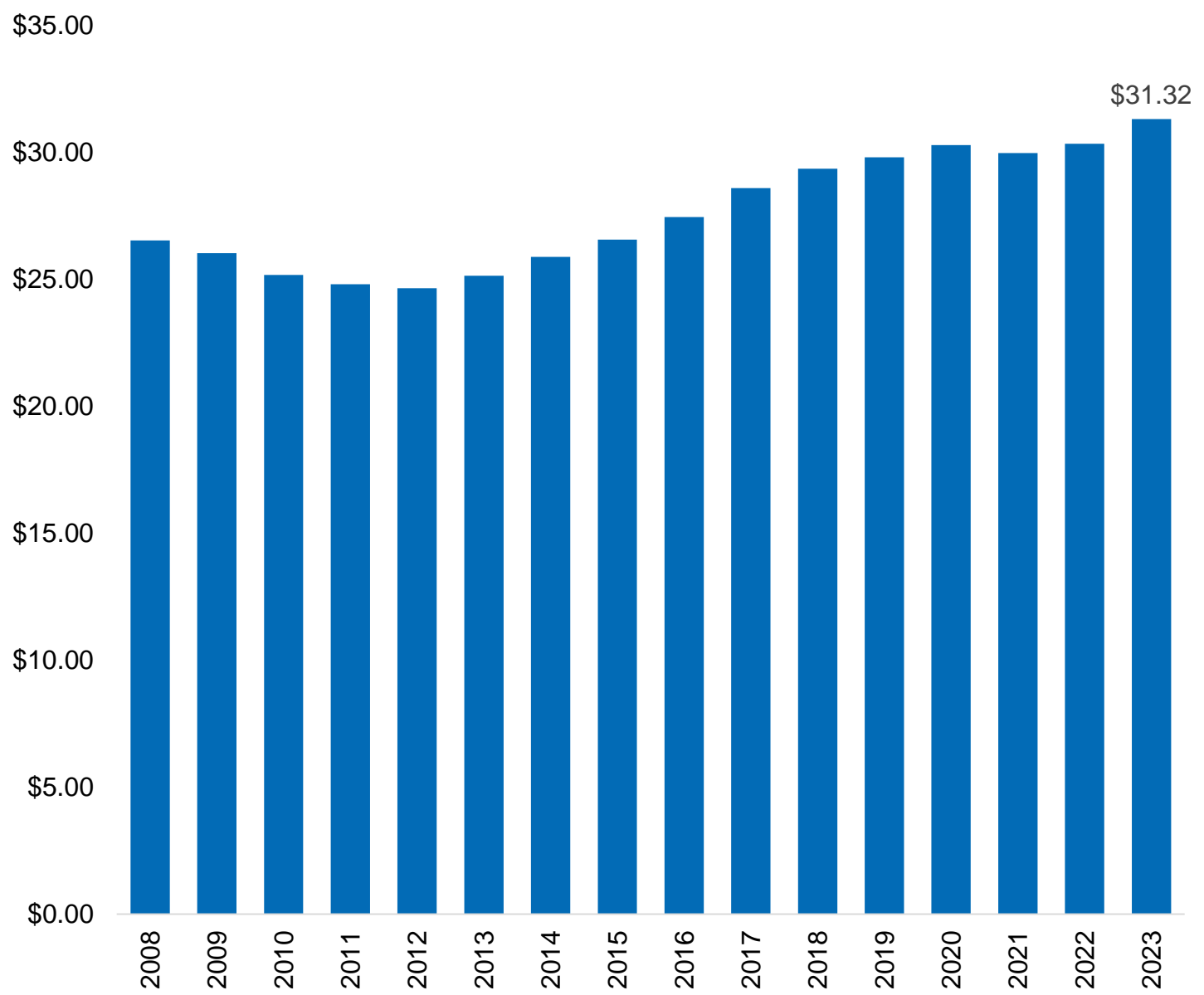


Source: Newmark Research, CoStar

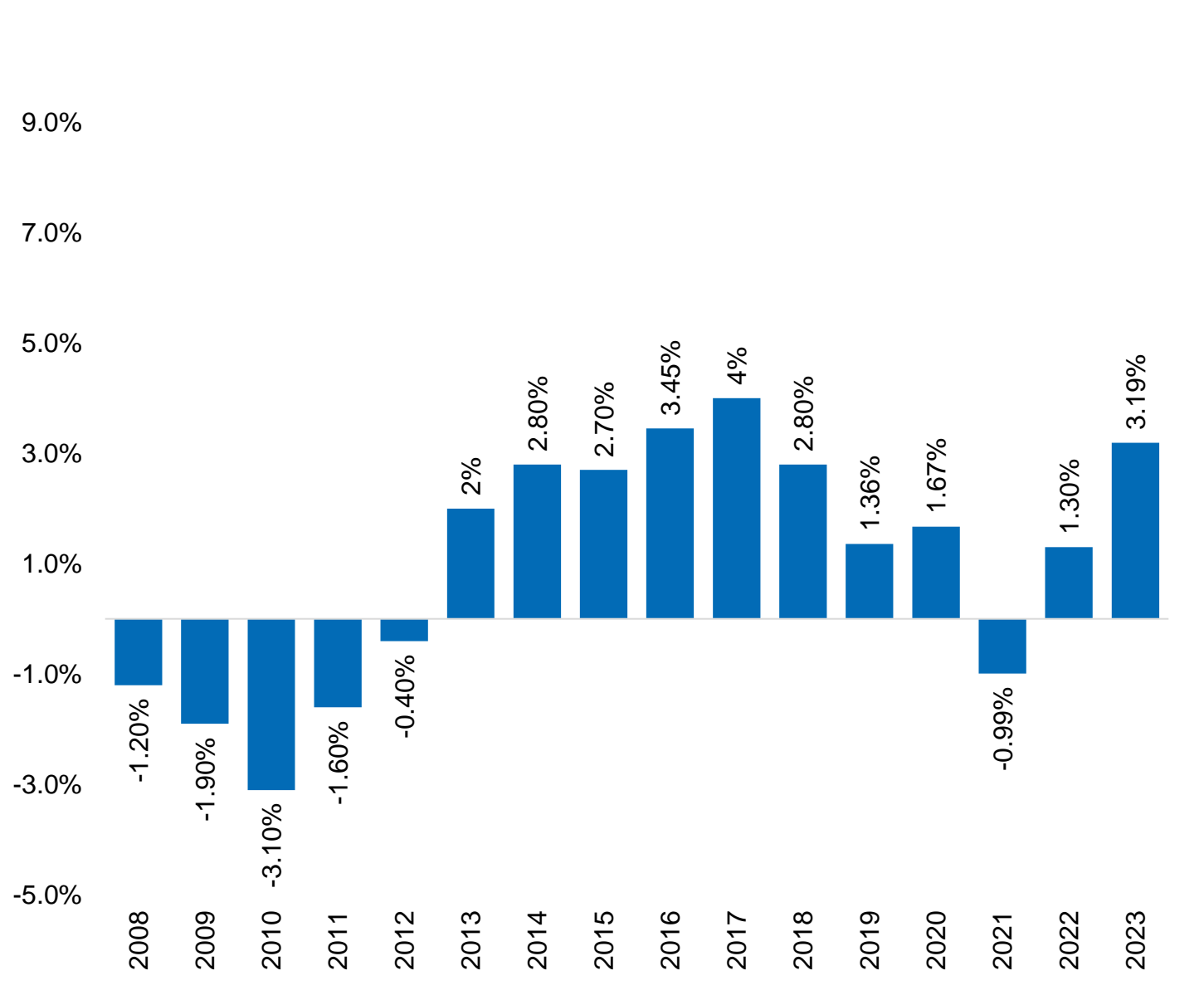
Rents Continue to Climb

Overall asking rents increased during 2023 to \$31.32/SF, up from \$30.74/SF during the fourth quarter of 2022. Year-over-year growth thus far in 2023 is 3.2%; however, it's expected that asking rents will decline during 2024, as space is leased up in high-quality buildings.

Office Average Asking Rent, \$/SF, FS



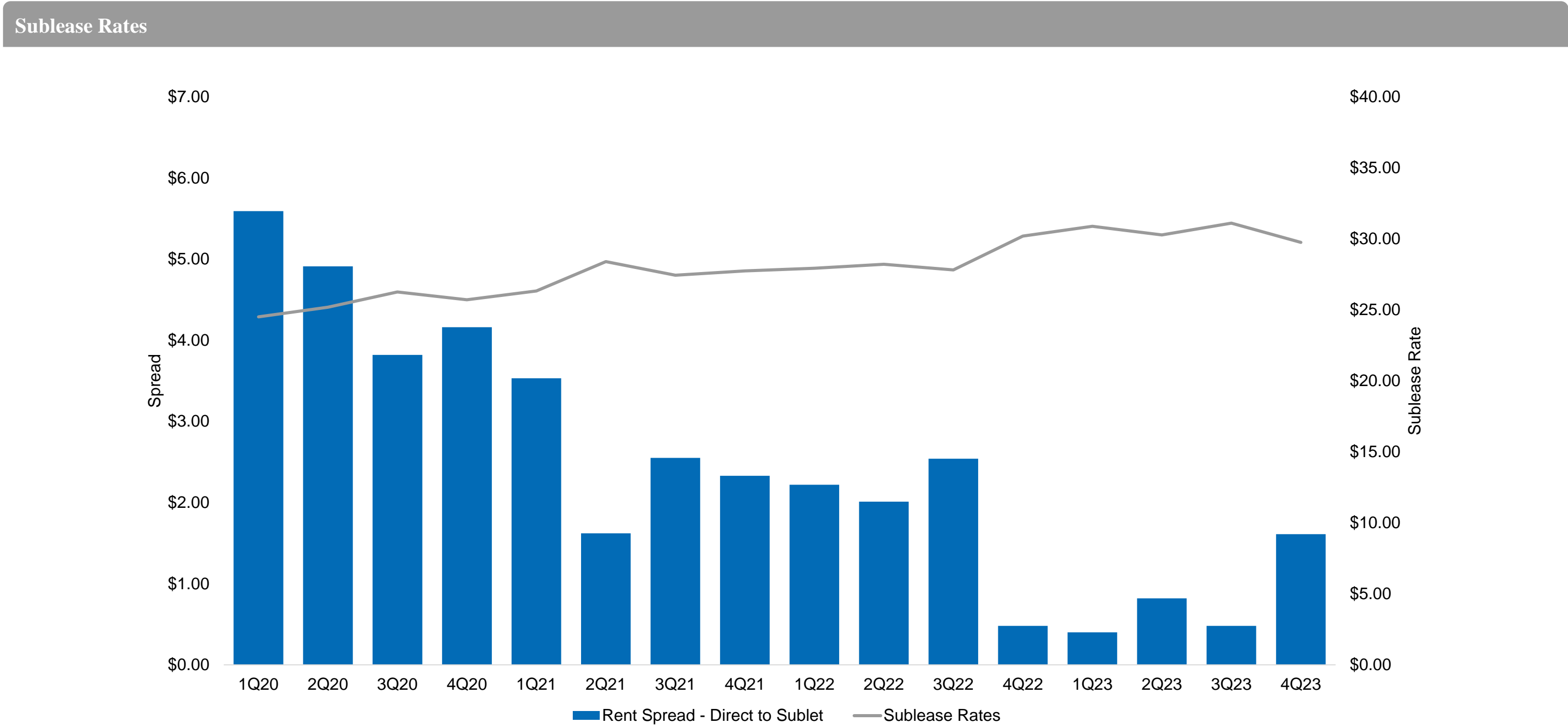
Year-over-Year Asking Rent Growth Rate



Source: Newmark Research, CoStar

Direct and Sublease Rates Gap Increases

The influx of high-end space to the market has caused rent spreads between direct and sublet space to compress throughout the past two years. Sublease space continues to remain attractive to certain tenants in the market, as evidenced by large deals during the fourth quarter of 2024 from Marcum LLP, MJH Associates Inc, and Endurance Services Limited.



Source: Newmark Research, CoStar

Notable Lease Transactions

Leasing activity in the fourth quarter of 2023 gained momentum, reaching 2.9 million SF, a 54.3% increase after a lackluster third quarter. The largest deal of the fourth quarter was Bank of America’s renewal and expansion to 547,962 SF at 525 Washington Blvd. in Jersey City.

Notable 4Q23 Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
Bank of America	525 Washington Boulevard	Hudson Waterfront	Renewal/Expansion	547,962
Bank of America renewed and expanded to 547,962 SF at 525 Washington Blvd. in Jersey City. The 15-year lease was the largest deal during the quarter and in 2023.				
Nokia Bell Labs	110 Plaza Street	Rt.18/8A Middlesex	Direct New	360,000
Nokia Bell Labs signed the largest deal of the fourth quarter, preleasing 360,000 square feet at 110 Plaza Street. The property is set to deliver during the first quarter of 2025.				
Marcum LLP	340 Mount Kemble Avenue	Morristown Area	Sublease	72,478
Marcum LLP subleased the entire second floor at 340 Mount Kemble Avenue for twelve years.				
Jefferies LLC	101 Hudson Street	Hudson Waterfront	Direct Renewal	60,000
Jefferies LLC renewed 60,000 square feet on the eleventh floor at 101 Hudson Street,				
MJH Associates Inc	2 Commerce Drive	Rt.18/8A Middlesex	Sublease	58,206
MJH Associates Inc subleased 58,206 square feet at 2 Commerce Drive.				

Source: Newmark Research

Submarket Stats Overview

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