

Northern New Jersey Office Market

Availability Continues to Increase

The Northern New Jersey office market began the year with another quarter of weakening fundamentals. Availability increased from 25.0 to 25.9% as the market recorded nearly 1.8 million square feet of negative net absorption. Asking rents continue to hold steady, averaging \$29.86/SF, though landlords are starting to accept lower net effective rents on a deal-by-deal basis. While it has not yet impacted the reported statistics, a recent uptick in touring and leasing proposals coinciding with the vaccine rollout indicates that a market recovery may be on the horizon.

Tenants Downsizing Space

As companies grapple with an economy still in recovery, while simultaneously determining post-COVID occupancy plans, many are choosing to dispose of space. The impact on the market is widespread, with the six largest submarkets each reporting more than 200,000 square feet of negative net absorption for the quarter. Sublet spaces accounted for 40.8% of the quarterly increase in availability. In total, nine properties had blocks of space larger than 100,000 square feet become available during the quarter. Many of the tenants shedding space are looking to downsize on a long-term basis and are in the market for significantly less space.

Current Conditions

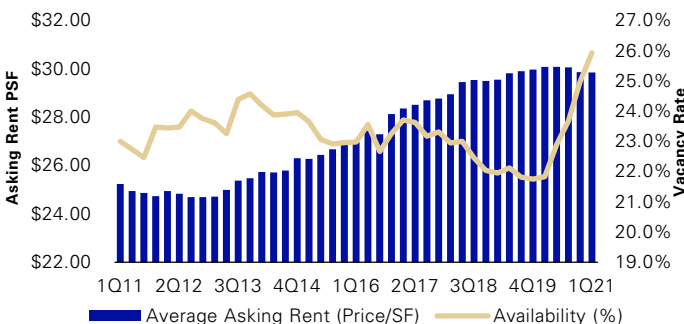
- The Northern New Jersey office market recorded its fifth consecutive quarter of negative net absorption.
- Availability continues to rise throughout the market as tenants downsize amid increased remote work.
- Asking rents have been stable, though landlords are starting to accept discounted rates and additional concessions to complete transactions.

Market Summary

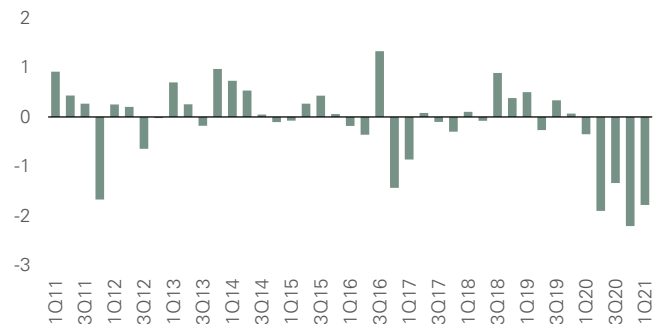
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	167.3M	167.3M	167.5M	↔
Availability Rate	25.9%	25.0%	21.8%	↑
Quarterly Net Absorption (SF)	-1,773,466	-2,200,889	-346,773	↔
Average Asking Rent / SF	\$29.86	\$29.87	\$30.09	↓
Under Construction (SF)	298,000	177,000	165,000	↔
Deliveries	0	0	0	↑

Market Analysis

ASKING RENT AND AVAILABILITY RATE



NET ABSORPTION



RESEARCH Q1 2021

The hardest-hit submarket in Northern New Jersey has been Newark, where Prudential and PSEG put a combined total of more than 400,000 square feet on the market for sublease. As a result, availability in Newark increased from 23.3% to 27.1% over the quarter. Prudential, which has publicly stated that employees will not all have desks going forward due to a hybrid remote work plan, is also looking to sell its buildings in Roseland.

Other significant dispositions include more than 250,000 square feet listed on a direct basis at 412 Mount Kemble Avenue in Morristown. This reflects space previously leased to WSP and ProSight Specialty Insurance. In the Princeton area, 225,000 square feet became available at 777 Scudders Mill Road, while 113,000 square feet at 4 Research Way was also listed. Availability in Princeton stands at 23.3%, up 310 basis points from one year ago. Additional blocks of space over 100,000 square feet hit the market during the quarter in the Parsippany, Somerset/I-78 and Hudson Waterfront submarkets.

Steady Leasing Activity

More than 1.6 million square feet of leasing transactions closed during the first quarter of 2021, which is 15.2% below the quarterly average seen over the past three years. The two largest new leases involved companies in the process of shrinking their footprints in the market. Honeywell leased back 131,745 square feet at 115 Tabor Road in Morris Plains, in conjunction with selling the 447,000-square-foot building which it owned and previously occupied in its entirety. In 2018, the company announced it was moving its corporate headquarters to North Carolina, while still maintaining a smaller footprint in New Jersey.

Meanwhile, Mallinckrodt Pharmaceuticals signed a new lease for 101,641 square feet at 53 Frontage Road in the Hunterdon/I-78 submarket. The space had been previously occupied by Ikaria, which was acquired by Mallinckrodt several years ago. Mallinckrodt filed for bankruptcy in October, and this relocation represents a shrinking of its footprint. The company's current space, totaling 230,000 square feet and located at 1405 and 1425 Route 206 in Bedminster, also hit the market during the quarter.

Two government tenants signed notable deals in Central New Jersey during the quarter. The State of New Jersey extended its lease for 332,000 square feet at 3444 Quakerbridge Road in Hamilton. US Citizen and Immigration Services signed a new lease for 60,309 square feet at 8 Cedar Brook Drive in Cranbury.

Development Breaks Ground

Construction began on the first phase of M Station, a new development in Downtown Morristown. Deloitte, which signed a 110,000-square-foot lease last year, will anchor the project and relocate from Parsippany as part of a pre-pandemic trend of tenants seeking transit and amenity-rich downtown environments. M Station will feature two Class A office towers with ground-floor retail space. The development, which is rising on the site of a former strip shopping center, is adjacent to the Morristown train station.

Looking ahead, vaccinations are expected to lead to additional reboarding of offices and ultimately tenant demand, though increased remote work strategies are a potential longer-term headwind for the market.

Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
State of New Jersey	3444 Quakerbridge Road	Princeton Area	Lease Extension	332,494
Honeywell	115 Tabor Road	Morristown Area	Sale/Leaseback	131,745
Mallinckrodt Pharmaceuticals	53 Frontage Road	Hunterdon/I-78	Direct Lease	101,641
ZT Systems	200 Plaza Drive	Meadowlands	Sublease	62,762
US Citizenship & Immigration Services	8 Cedar Brook Drive	Route 18/8A Middlesex	Direct Lease	60,309

Select Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
99 & 101 Wood Avenue South, 333 & 343 Thornall Street	Metropark/GSP	\$254,000,000	\$273	931,660
60 Columbia Drive, 100 Southgate Parkway and 1200 Mount Kemble Avenue	Morristown Area	\$77,000,000	\$189	407,635
170 Park Avenue	Morristown Area	\$46,600,000	\$317	147,215
115 Tabor Road	Morristown Area	\$39,000,000	\$87	446,798

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Submarket Statistics							
	Total Inventory (SF)	Under Construction (SF)	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)
Northern NJ	98,702,375	298,000	26.1%	-1,284,149	-1,284,149	\$35.21	\$24.24
Bergen Central	9,290,591	0	20.0%	-21,454	-21,454	\$32.10	\$24.44
Bergen East	4,863,951	0	17.2%	24,658	24,658	\$33.27	\$27.46
Bergen North	4,864,777	52,000	32.8%	-20,539	-20,539	\$27.62	\$22.54
Essex West/I-280	4,492,158	0	27.0%	4,769	4,769	\$27.01	\$24.51
Hudson Waterfront	21,141,852	125,000	22.8%	-246,517	-246,517	\$44.90	\$40.60
Meadowlands	5,642,425	0	26.1%	85,739	85,739	\$30.08	\$24.29
Morris West/I-80	1,451,078	0	21.0%	2,932	2,932	\$24.77	\$18.89
Morristown Area	12,102,884	121,000	27.2%	-251,327	-251,327	\$32.88	\$25.91
Newark	12,480,029	0	27.1%	-479,803	-479,803	\$34.86	\$24.70
Parsippany/Route 10	12,809,085	0	36.0%	-372,117	-372,117	\$30.87	\$23.01
Route 46/Wayne	7,768,521	0	23.9%	6,640	6,640	\$25.54	\$20.19
Short Hills/Route 24	1,795,024	0	29.9%	-17,130	-17,130	\$46.90	\$34.84
Central NJ	68,584,660	0	25.7%	-489,317	-489,317	\$30.85	\$23.22
Hunterdon/I-78	2,610,155	0	45.5%	95,846	95,846	\$20.00	\$17.91
MetroPark/GSP	6,150,359	0	17.8%	45,689	45,689	\$36.17	\$29.73
Monmouth	10,292,815	0	21.0%	-58,826	-58,826	\$31.40	\$21.75
Piscataway/I-287 South	9,221,516	0	26.1%	35,673	35,673	\$22.44	\$20.10
Princeton Area	17,807,601	0	23.3%	-405,329	-405,329	\$32.63	\$24.23
Route 18/8A Middlesex	2,864,079	0	17.4%	51,900	51,900	\$30.62	\$23.78
Somerset/I-78	16,533,212	0	33.1%	-266,016	-266,016	\$32.13	\$23.99
Union Area	3,104,923	0	20.9%	11,746	11,746	\$31.61	\$25.23
Northern/Central NJ	167,287,035	298,000	25.9%	-1,773,466	-1,773,466	\$33.72	\$23.78

RESEARCH Q1 2021

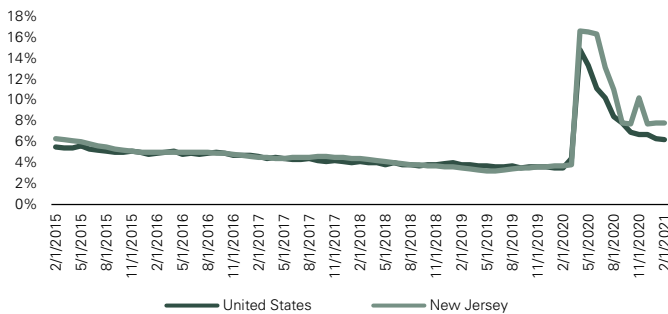
Economic Conditions

After seeing a partial recovery last summer, economic conditions in New Jersey have been relatively stable. Total employment is up 9.2% from an April 2020 low, but remains 8.4% below the level seen before the pandemic. The sectors that comprise the bulk of demand for office space, financial activities and professional services, saw some of the smallest job losses over the past year, equating to 1.0% and 4.9%, respectively.

More than 30% of New Jersey residents have now received at least one dose of a COVID-19 vaccine, increasing optimism for a full economic recovery to take hold, which includes additional reboarding of offices. The recently enacted incentives program, which offers awards to companies relocating from out of state, will help further stimulate job growth, as well as demand for office space across Northern New Jersey in the year ahead.

Unemployment Rate

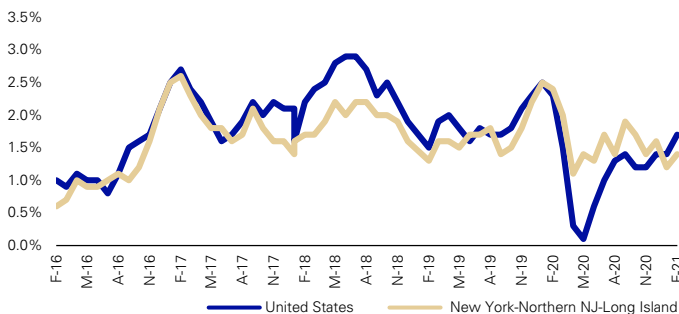
SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, NJDLWD

Consumer Price Index (CPI)

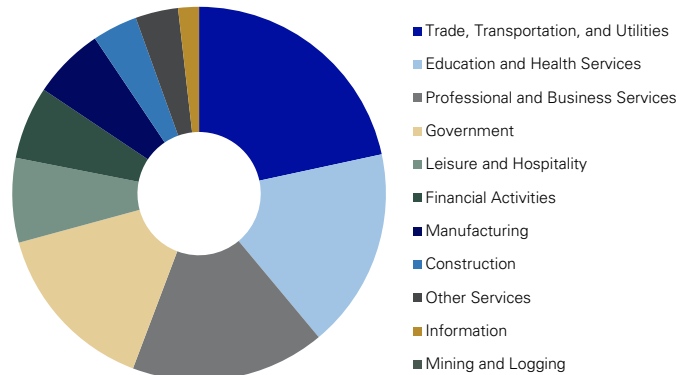
ALL ITEMS, 12-MO. % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Employment By Industry

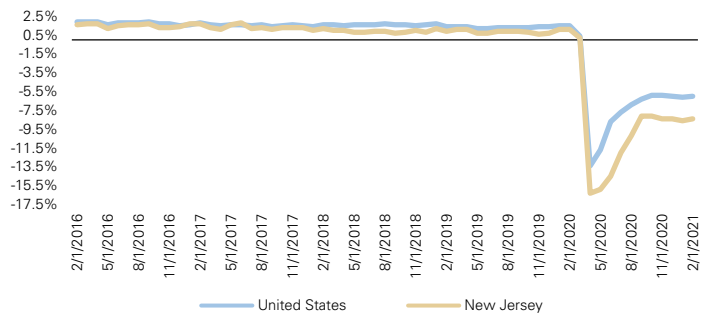
NEW JERSEY, ANNUAL AVERAGE 2020



Source: U.S. Bureau of Labor Statistics

Payroll Employment

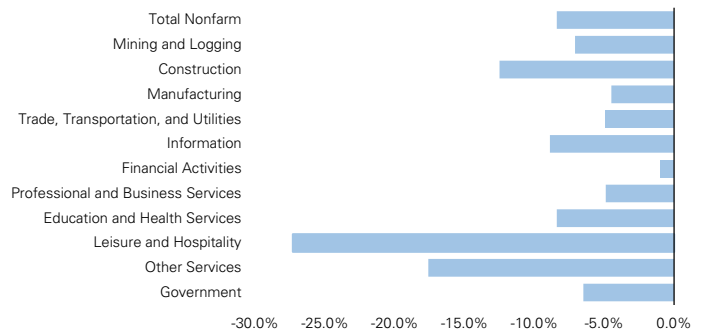
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MO. % CHANGE



Source: U.S. Bureau of Labor Statistics

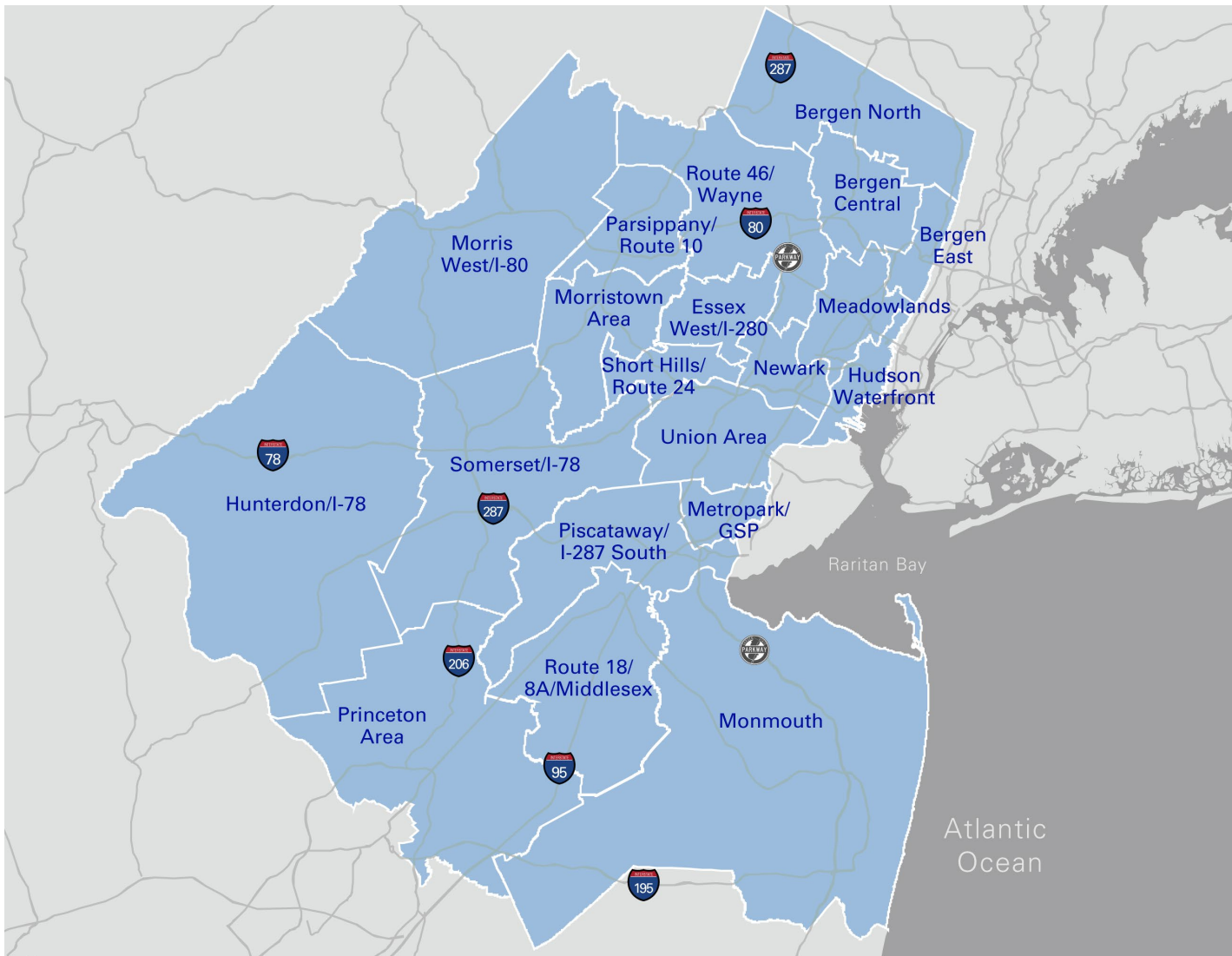
Employment Growth By Industry

NJ, FEB 2021, 12-MO. % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Northern NJ Office Submarkets



For more information:

New York Headquarters

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

Mark Russo

Research Manager
New Jersey
mark.russo@ngkf.com

Colin Hyde

Research Analyst
New Jersey
colin.hyde@ngkf.com

nmrk.com

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at ngkf.com/research.

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