

Northern New Jersey Office Market

Large Deals Signal Recovery

An uptick in large block leasing activity helped stabilize the Northern New Jersey office market during the third quarter of 2021. While the Delta variant has inserted some uncertainty into return-to-office plans, high vaccination rates, combined with new state incentives, are spurring corporate occupiers to make long-term commitments to offices. Challenges remain with a historically high availability rate of 26.3%, which has risen from 21.8% at the beginning of 2020. Asking rents remain stable, averaging \$29.92/SF, but increased concessions continue to be common amid tenant-friendly conditions.

Incentives Spur Blockbuster Leases

New Jersey's new Emerge incentives program announced its first awards September. In a potential blockbuster deal, Fiserv was approved for a \$109.0-million Emerge award and is nearing completion on a lease of 428,000 square feet at 100 Connell Drive in Berkeley Heights. The Fortune 500 fintech company would add 1,927 jobs in the state to its existing workforce of 1,063. Party City is planning to consolidate sites in Rockaway, New Jersey, and Elmsford, New York, into one national headquarters at 100 Tice Boulevard in Woodcliff Lake. Incentivized by a seven-year, \$10.0-million tax credit, the

Current Conditions

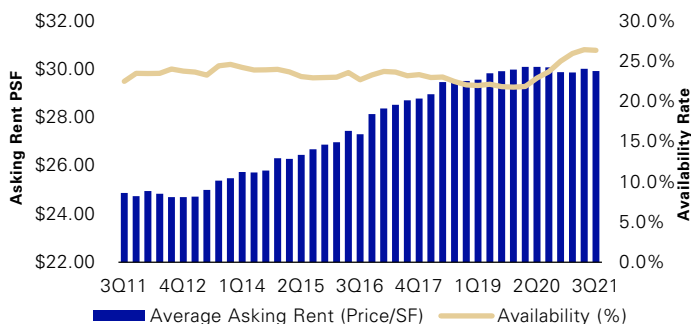
- Incentives and return-to-office plans are stimulating large block leasing demand.
- Availability remains elevated, equating to 26.3%, which is up from 21.8% in the beginning of 2020.
- Aging office properties are increasingly being targeted by investors for redevelopment into alternative uses, including industrial.

Market Summary

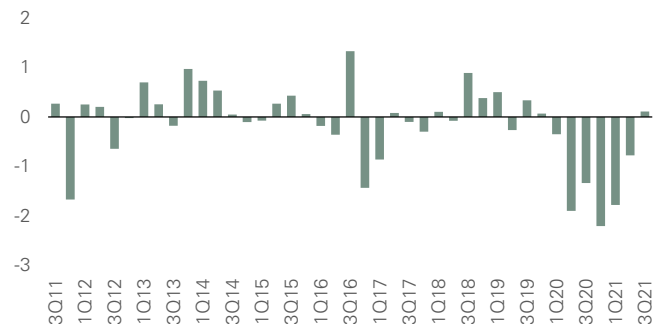
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	167.3M	167.3M	167.3M	↔
Availability Rate	26.3%	26.4%	23.7%	↔
Quarterly Net Absorption (SF)	110,162	-772,833	-1,332,575	↔
Average Asking Rent / SF	\$29.92	\$30.01	\$30.07	↓
Under Construction (SF)	121,000	121,000	165,000	↔
Deliveries	0	177,000	0	↔

Market Analysis

ASKING RENT AND AVAILABILITY RATE



NET ABSORPTION



RESEARCH Q3 2021

company is expected to lease more than 200,000 square feet to house approximately 700 employees. Over the summer, Cigna signed a 10-year, 200,000-square-foot lease at 115 Tabor Road in Morris Plains, which is the former Honeywell International headquarters. Cigna is relocating from 100 Parsons Pond Road in Franklin Lakes, which it placed on the market for sale earlier this year. This deal helped move availability lower in the Morristown area from 30.0% to 27.1%.

Other notable leases during the quarter include Remarkable Foods taking 103,000 square feet at 399 Jefferson Road in Parsippany and ROAR leasing 50,000 square feet at Harborside Plaza 2 in Jersey City. United Healthcare also extended its lease for 62,000 square feet at 131 Morristown Road in Basking Ridge.

Availability Stabilizing

The current availability rate of 26.3% includes 8.9 million square feet of sublease space. The amount of sublease space on the market was stable over the quarter, after increasing by 63.0% since the pandemic began. Although they were offset by new leasing, a few notable sublease spaces became available during the quarter as companies continue to grapple with post-covid occupancy plans. These availabilities included 122,000 square feet with Ralph Lauren at ON3 in Nutley. The retail giant is giving up about half of the space at its corporate office, which opened in 2019. Eisai also put 107,000 square feet on the market for sublease at 155 Tice Boulevard in Woodcliff Lake. The life sciences company relocated to ON3 in Nutley last year. Another notable sublease space that came on the market during the

quarter is 89,000 square feet with Billtrust at 1009 Lenox Drive in Lawrenceville.

New direct spaces became available at 131 Morristown Road in Basking Ridge and 300 Kimball Drive in Parsippany, totaling 106,000 and 80,000 square feet, respectively. Both direct and sublease availability is expected to decline as leasing activity continues to pick up with the advent of the Emerge incentives program as well as tenants reoccupying offices that were previously placed on the market amid the pandemic.

Office Buildings Sell for Redevelopment

Elevated availability and discounted effective rents are causing investors to seek out office properties as redevelopment opportunities. Since 2016, 3.8 million square feet of office product in Northern New Jersey has been redeveloped, while 28 buildings totaling 6.5 million square feet are in the planning stages for redevelopment. More than 1/3 of these properties are slated for industrial use, a trend encouraged by steeply rising industrial rents. A joint venture of EverWest Real Estate Investors and Woodmont Properties recently purchased 400 Atrium Drive in Somerset, along with an adjacent 7.0-acre parcel that it plans to redevelop with two warehouse buildings totaling 294,000 square feet. Office buildings near prime industrial areas, such as the Turnpike Corridor and the Meadowlands, are prime candidates for these types of projects. Availability will trend lower in these areas as more aging office properties are demolished and removed from the inventory.

Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
Cigna	115 Tabor Road	Morristown Area	Direct Lease	200,000
Remarkable Foods Inc	399 Jefferson Road	Parsippany/Route 10	Direct Lease	103,931
United Health Services	131 Morristown Road – Building B	Somerset/I-78	Lease Extension	64,753
ROAR	Harborside 2	Hudson Waterfront	Direct Lease	50,000
Spencer Savings Bank	611 River Drive	Bergen Central	Lease Renewal	41,499

Select Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
600 & 700 Alexander Park	Princeton Area	\$47,300,000	\$222	213,110
400 Atrium Drive	Piscataway/I-287 South	\$39,147,303	\$113	347,555
7 Giralda Farms	Morristown Area	\$29,000,000	\$122	236,809
40 & 45 Technology Drive	Somerset/I-78	\$19,000,000	\$136	139,391

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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	98,692,954	121,000	26.6%	-53,484	-1,769,775	\$35.05	\$24.37
Bergen Central	9,290,591	0	19.5%	233	18,290	\$32.31	\$24.78
Bergen East	4,863,951	0	20.5%	-44,120	-137,892	\$33.08	\$27.54
Bergen North	4,916,777	0	38.1%	-151,603	-276,316	\$27.20	\$22.51
Essex West/I-280	4,492,158	0	26.5%	42,293	26,349	\$27.16	\$24.59
Hudson Waterfront	21,266,852	0	23.6%	12,731	-330,194	\$44.65	\$41.12
Meadowlands	5,456,004	0	25.7%	-31,435	28,452	\$30.50	\$25.08
Morris West/I-80	1,451,078	0	20.6%	-12,097	8,079	\$25.02	\$19.69
Morristown Area	12,102,884	121,000	27.1%	353,099	-238,092	\$32.79	\$26.08
Newark	12,480,029	0	27.4%	-85,495	-514,448	\$33.26	\$24.66
Parsippany/Route 10	12,809,085	0	36.2%	-61,731	-395,923	\$31.13	\$22.84
Route 46/Wayne	7,768,521	0	25.2%	-117,212	-95,789	\$25.62	\$20.42
Short Hills/Route 24	1,795,024	0	21.3%	41,853	137,709	\$48.83	\$30.16
Central NJ	68,584,660	0	26.0%	163,646	-666,362	\$30.84	\$23.08
Hunterdon/I-78	2,610,155	0	48.8%	1,906	9,045	\$20.00	\$17.91
MetroPark/GSP	6,150,359	0	18.3%	-25,272	15,424	\$36.44	\$29.95
Monmouth	10,292,815	0	19.9%	74,933	56,128	\$31.67	\$21.64
Piscataway/I-287 South	9,221,516	0	24.4%	20,632	195,469	\$22.52	\$19.79
Princeton Area	17,807,601	0	24.3%	-75,189	-577,764	\$32.71	\$24.19
Route 18/8A Middlesex	2,864,079	0	17.1%	23,088	59,818	\$30.66	\$24.57
Somerset/I-78	16,533,212	0	33.2%	166,352	-289,427	\$31.39	\$23.60
Union Area	3,104,923	0	25.6%	-22,804	-135,055	\$31.64	\$25.17
Northern/Central NJ	167,277,614	121,000	26.3%	110,162	-2,436,137	\$33.72	\$23.79

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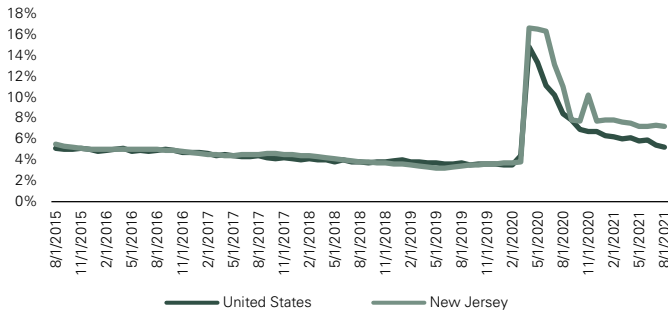
Economic Conditions

New Jersey's labor market continued its recovery over the past quarter, with total employment up 6.1% from one year ago. The jobless rate now stands at 7.2%, down from its 2020 peak of 16.6%, but remains elevated compared to before the pandemic, when it fell below 4.0%. Prices for a range of goods have been increasing at a faster pace, with the regional CPI rising by 3.7% over the past 12 months. This corresponds with rising costs for construction materials, which is making it more challenging to fund office tenant build-outs.

The new Emerge incentives program granted its first awards in September and is expected to further stimulate job growth supporting demand for office space across New Jersey. Also on the horizon is a November gubernatorial election. A change in leadership could result in changes to economic policies, including incentives and tax rates, that would impact office demand.

Unemployment Rate

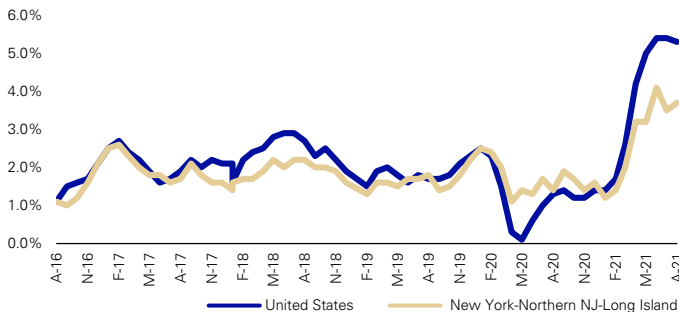
SEASONALLY ADJUSTED



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

Consumer Price Index (CPI)

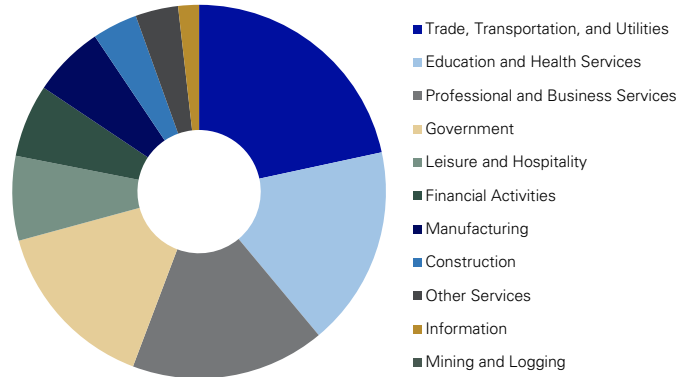
ALL ITEMS, 12-MO. % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Employment By Industry

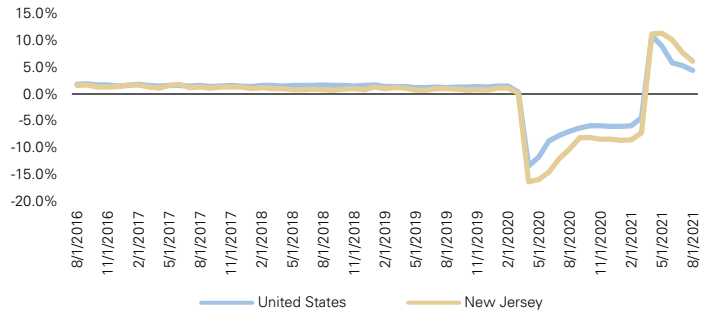
NEW JERSEY, ANNUAL AVERAGE 2020



Source: U.S. Bureau of Labor Statistics

Payroll Employment

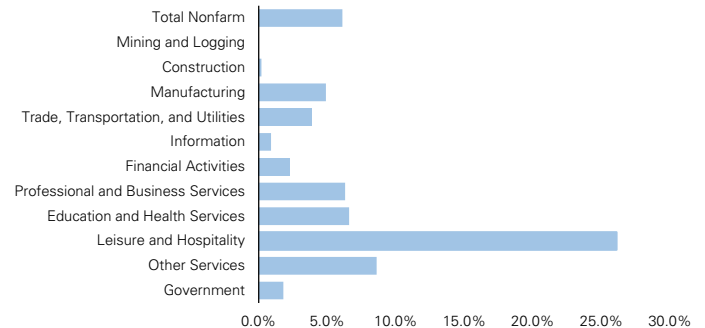
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MO. % CHANGE



Source: U.S. Bureau of Labor Statistics

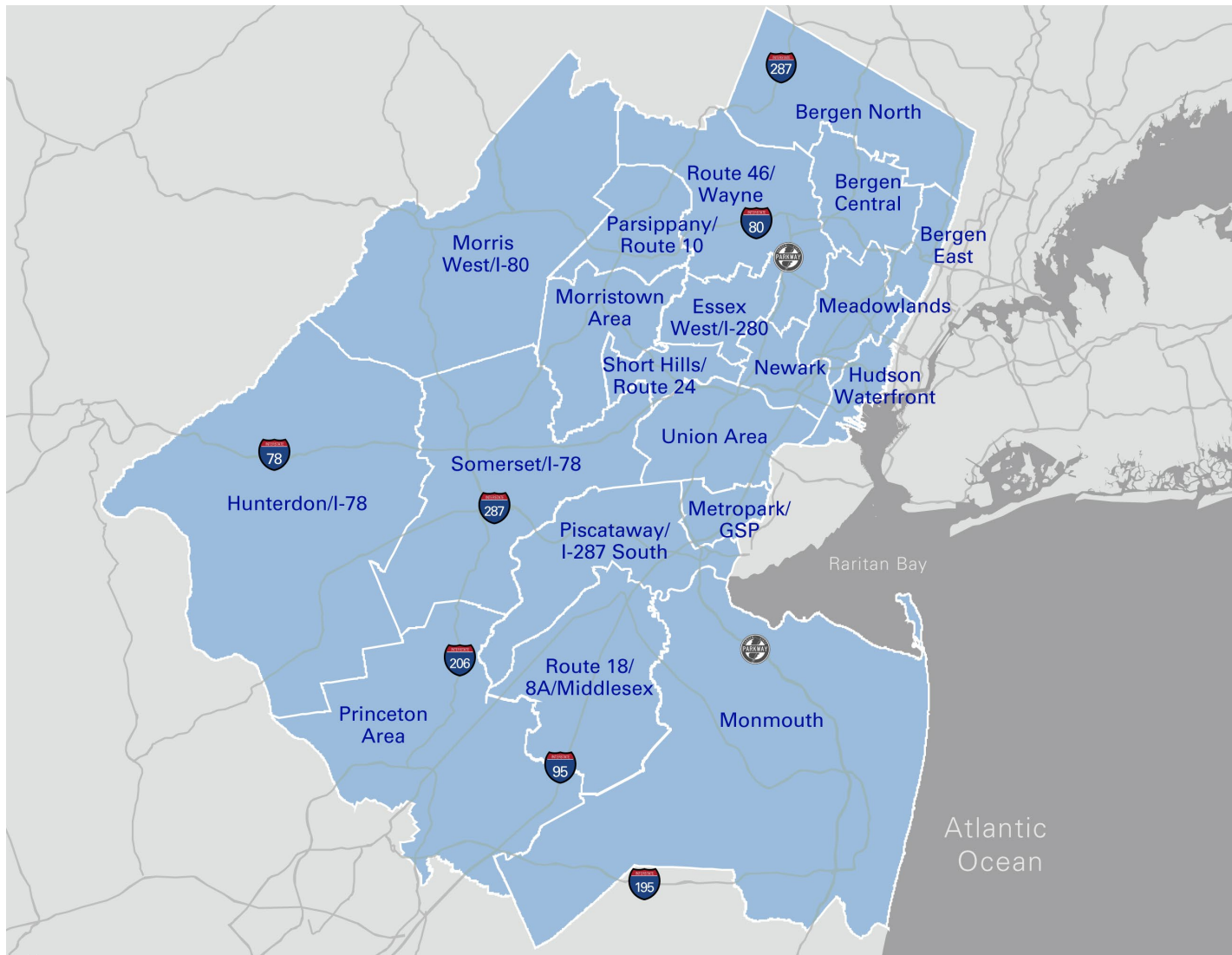
Employment Growth By Industry

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



Source: U.S. Bureau of Labor Statistics

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