

Northern New Jersey Office Market

Availability Continues to Trend Down

A continued flight-to-quality among office tenants, along with the repurposing of outdated stock, continued the decline in availability during the fourth quarter of 2022. The availability rate decreased from 25.6% to 24.9% over the past three months, marking its lowest rate in over a year, although a significant decline would be needed to reach the pre-pandemic rate of 21.8%. Overall asking rents increased slightly, growing to \$30.67/SF, up from \$30.35/SF during the third quarter of 2022. Premier buildings have been recording the largest rent increases.

4Q22 Activity Slows and Absorption Posts Negative

Leasing activity closed the fourth quarter of 2022 at over 1.9 million square feet, a 41.5% decrease quarter over quarter. This brought year-to-date activity to just under 11.7 million square feet. Of that total, 57.2% was leased in Class A space which is continued year-over-year improvement, up from 54.4%. The trend of flight to quality didn't slow during 2022, validating investments by landlords in new amenities and modern features.

After posting positive in the third quarter of 2022, quarterly absorption reverted negative at 1,130,469 square feet. This brought the year-to-date total to negative 318,533 square feet.

Current Conditions

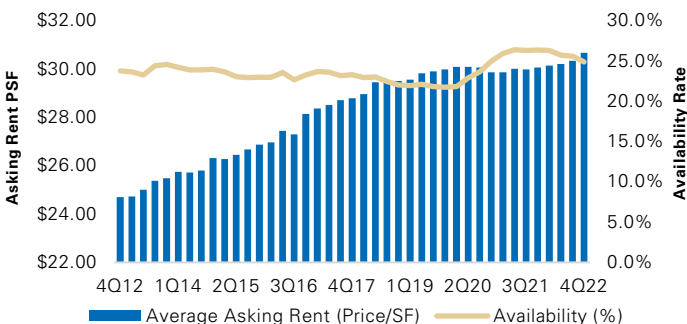
- Availability continued to drop, falling from 25.6% to 24.9% over the quarter.
- Quarterly absorption posted at negative 1.13 million square feet.
- Demolitions and conversions to alternative uses are helping to reduce oversupply of outdated stock.

Market Summary

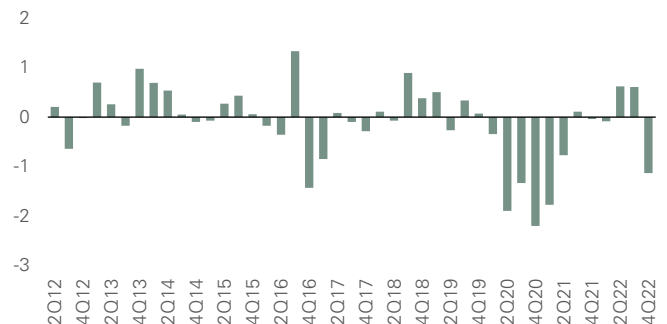
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	165.7M	165.8	167.3M	↓
Availability Rate	24.9%	25.6%	26.4%	↓
Quarterly Net Absorption (SF)	-1,130,469	602,056	-772,833	↔
Average Asking Rent PSF	\$30.67	\$30.35	\$30.01	↑
Under Construction (SF)	119,350	240,350	121,000	↓
Deliveries	0	0	177,000	↑

Market Analysis

ASKING RENT AND AVAILABILITY RATE



NET ABSORPTION



RESEARCH Q4 2022

Sublet space in the fourth quarter of 2022 totaled over 8.6 million square feet which decreased from the third quarter of 2022 when roughly 9.1 million square feet were available. Sublease space is down 5.5% quarter over quarter. This is a positive sign as sublease space was at record highs during the first quarter of 2022. With more employees returning to work on hybrid schedules and less employers offering fully remote jobs, a decrease in sublet availability should continue.

Three large availabilities added to the market during the fourth quarter of 2022 totaled 941,831 square feet. At 53 Frontage Rd. in Hampton, roughly 294,000 square feet of Class A space came to the market. Additionally, 491,831 square feet became available at 480 Washington Blvd. in Jersey City. This was the largest addition of Class A space during the fourth quarter of 2022, with 296,999 square feet being contiguous space. At 7 Campus Dr. in Parsippany, 156,000 square feet was brought on to the market.

Life Sciences Firms Continue to Drive Demand

Life sciences have accounted for nearly 1/3 of all office leases signed through the year. In Cranbury, Wuxi App Tec signed a sublease for 20,824 square feet for the second-floor at 6 Cedar Brook Dr. The deal contributed to over 84,000 square feet of positive yearly absorption in the Route 18/8A Middlesex submarket. Availability is also down in the Route 18/8A Middlesex submarket, down from 16.7% to 15.1%. Demand for space exceeds 1 million square feet, while no new significant construction is underway. New Jersey's abundance of elite research institutions and STEM professionals will continue to be

a draw for biotech and pharmaceutical occupiers, strengthening office demand. Further expansions in STEM are expected in 2023, which should lead to greater demand.

Availability Continues to Decrease

As flight to quality and widespread hybrid work persists, owners are turning to other uses for largely empty Class B and C office buildings. During the fourth quarter of 2022, more than 365,000 square feet was demolished or removed from the inventory. One of the largest contributors to this total was at 800 Sylvan Ave. in Englewood Cliffs. Three vacant buildings were razed to make room for a proposed 600 multi-family units, including 120 affordable units. The Parsippany/Route 10 submarket's high availability rate of 35.4% is continuing to trend down as a result of Class A demand and the repurposing of outdated buildings.

Leasing volume will continue to be concentrated in the highest-quality buildings as tenants prioritize flexibility and vibrant workspaces for employees in a competitive labor market. Savvy owners that expand amenity offerings and concessions packages will likely have the easiest time filling their offices in the near term. The improving quality of the inventory is expected to help continue to lower availability as aging buildings are either renovated and leased up or sold for redevelopment.

Approximately 119,305 square feet remains under construction in the Morristown submarket. The property at 52-74 Speedwell Ave. will serve as the headquarters for Valley Bank. This new inventory is slated to deliver in March 2023.

Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
Bristol Myers Squibb	5 Giralda Farms	Morristown Area	Direct Lease	250,000
Cervalis LLC	50 Madison Rd	Bergen Central	Direct Renewal	144,541
AbbView	100 Park Ave	Morristown Area	Direct Lease	92,438
AT&T	15 East Midland Ave	Bergen Central	Direct Renewal	70,950
Nestle	121 River St	Hudson Waterfront	Direct Lease	41,453

Select Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
101 Hudson St	Hudson Waterfront	\$346,000,000	\$256.73	1,347,712
300 Kimball Dr	Parsippany/Route 10	\$88,000,000	\$205.61	428,000
73 Mountainview Blvd	Somerset/I-78	\$51,750,000	\$409.54	126,360
427-429 Bloomfield Avenue	Essex West/I-280	\$18,000,000	\$554	32,498

RESEARCH Q4 2022

Submarket Statistics							
	Total Inventory (SF)	Under Construction (SF)	Total Availability Rate	Quarter Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)
Northern NJ	97,464,066	119,350	24.33%	-399,758	-669,443	\$32.25	\$26.24
Bergen Central	9,290,591	0	16.3%	-16,044	104,879	\$33.11	\$25.17
Bergen East	4,498,782	0	13.8%	-32,325	-49,219	\$31.32	\$28.66
Bergen North	4,852,427	0	30.8%	-56,286	-40,626	\$26.14	\$22.74
Essex West/I-280	4,418,816	0	26.2%	-6,018	-131,308	\$27.59	\$25.60
Hudson Waterfront	21,336,852	0	26.2%	-678,630	-618,931	\$43.83	\$39.79
Meadowlands	5,456,004	0	20.6%	215,948	272,107	\$30.10	\$25.94
Morris West/I-80	1,451,078	0	24.1%	3,688	-16,013	\$23.74	\$18.55
Morristown Area	12,032,384	119,350	29.2%	225,631	-47,056	\$31.80	\$26.24
Newark	12,240,029	0	20.5%	-129,569	-102,435	\$34.40	\$23.04
Parsippany/Route 10	12,459,958	0	35.4%	63,963	54,005	\$31.21	\$23.53
Route 46/Wayne	7,632,121	0	25.9%	16,573	-33,375	\$25.21	\$19.70
Short Hills/Route 24	1,795,024	0	22.9%	-6,419	-61,471	\$48.49	\$35.88
Central NJ	68,293,660	0	26.30%	-730,711	351,000	\$29.83	\$23.62
Hunterdon/I-78	2,610,155	0	57.3%	-258,863	-233,009	\$20.38	\$19.50
MetroPark/GSP	6,150,359	0	24.4%	-39,577	-160,103	\$39.70	\$30.27
Monmouth	10,295,373	0	20.1%	-114,829	122,288	\$29.47	\$21.04
Piscataway/I-287 South	9,221,516	0	18.8%	-42,656	-93,457	\$22.82	\$20.22
Princeton Area	17,697,601	0	23.5%	-171,138	-168,866	\$32.59	\$23.55
Route 18/8A Middlesex	2,864,079	0	15.1%	10,979	84,928	\$30.41	\$25.78
Somerset/I-78	16,342,212	0	27.4%	-153,820	766,492	\$31.52	\$23.81
Union Area	3,114,923	0	24.6%	39,193	32,727	\$31.74	\$24.75
Northern/Central NJ	165,760,284	119,350	24.9%	-1,130,469	-318,533	\$34.28	\$23.87

RESEARCH Q4 2022

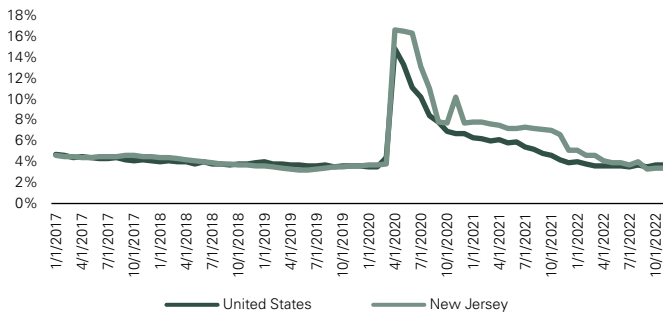
Economic Conditions

New Jersey's labor market continues towards recovery, with 30 months of consecutive private-sector job growth. The unemployment rate is down to 3.4%, 30 basis points below the national average. Regional CPI sits at 5.9%, down from 6.7% during the second quarter of 2022. The national Consumer Price Index increased 7.1% year-over-year. The Fed recently raised interest rates an additional 50 basis points as anticipated. Interest rates are expected to increase during the next quarter, as the Fed continues to combat inflation.

New Jersey job growth was driven by the leisure and hospitality industry, as well as other services and mining and logging. With concerns rising that a recession may be brewing, the national labor market has not shown worrying signs, and that is also true for New Jersey.

Unemployment Rate

SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

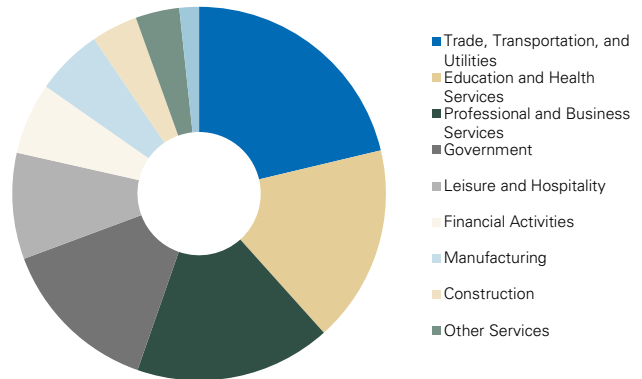
ALL ITEMS, 12-MO. % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Employment By Industry

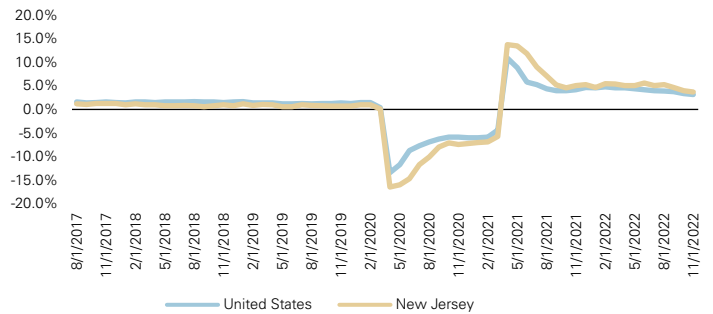
NEW JERSEY, ANNUAL AVERAGE 2022



Source: U.S. Bureau of Labor Statistics

Payroll Employment

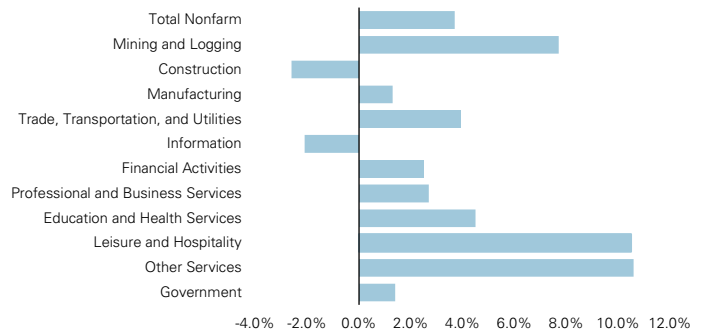
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MO. % CHANGE



Source: U.S. Bureau of Labor Statistics

Employment Growth By Industry

NJ, NOV. 2022, 12-MO. % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

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