

New Jersey



Quick Stats

10.2% ↑

New Jersey's unemployment rate (National rate 6.7%)

2.7% ↑

Overall vacancy rate

\$9.14 ↑

Market rent (NNN)

7.2 M ↑

12 month absorption (sf)

Note: Arrows indicate comparison to Q4 2019

The vacancy rate appears to have bottomed out at 2.7%; rents continue to rise

The vacancy rate was 2.7 percent at the close of the fourth quarter this year. This is slightly higher than the 2.6 percent it was during the fourth quarter of 2019, while the historic ascent of NNN rents has continued to \$9.14 per square foot. The market has experienced its seventh straight quarter of positive absorption.

Iron Mountain completes sale-leaseback with Blackrock

As part of a 13-property sale-leaseback transaction, Iron Mountain leased 220,328 square feet at 22 Kimberly Road in East Brunswick. Blackstone paid \$358 million to acquire 2,079,007 square feet of industrial and flex properties from Iron Mountain (including three in New Jersey, 20, 22 & 30 Kimberly Road in East Brunswick). As part of the transaction, Iron Mountain signed 10-year deals with options to renew up to an additional 20 years at each of the properties.

National Tree Products takes space at Exit 8

National Tree Products agreed to lease 608,422 square feet at 150 Milford Road in East Windsor. The seller of artificial Christmas trees will occupy the recently updated warehouse. In 2019, Dermody Properties acquired the property, which was part of Conair Corp.'s longtime headquarters. The property boasts 28-to-36-foot ceiling heights and is less than a mile from Exit 8 on the New Jersey Turnpike.

JFR Global Investments purchased 100 Jefferson Road after a multimillion-dollar renovation

JFR Global Investments purchased 100 Jefferson Road in Parsippany. The last-mile distribution center was 63.5 percent leased at the time of sale and boasts 38 foot clear, 35 loading docks, three drive-in doors, and 514 parking stalls. The property was purchased from a joint venture of Turnbridge Equities and Harbor Group International for \$85.25 million (154.04/SF). The property was previously sold in 2018 for \$60.2 million and has recently completed a multimillion-dollar renovation.

Prism Capital Partners sells part of the former Hoffmann LA Roche HQ campus

Prism Capital Partners sold 111 Ideation Way in Nutley to Harrison Street Capital for \$36.75 million (\$224.09/SF). This flex/R&D property is part of the former Hoffmann LA Roche HQ campus and the reimagined ON3 project. The property was 100 percent leased at the time of sale and is home to Hackensack Meridian Health Center for Discovery and Innovation, Modern Meadow, and Y-mAbs Therapeutics, Inc.



Issue Spotlight: Cannabis- Lessons learned from around the country

In November, the voters of New Jersey decided to amend the state constitution to allow for the legal adult use of cannabis starting January 1, 2021. This amendment put the state legislature and Governor on the clock to formalize the legal cannabis marketplace regulations. In the middle of December, both the State Assembly and Senate passed a series of bills laying out the groundwork to tax and regulate the market. (At the time of this writing, Governor Murphy has not signed the bill.)

With the legal cannabis business coming to the Garden State, we decided to look to other states that have legalized the recreational use and growth of cannabis to try to understand the real estate impact.

The first thing we learned was that it would almost exclusively directly affect the industrial and flex markets. After speaking to professionals around the country, the only effect it had on the office market was the repurposing of class C buildings to be used by cultivators. Most operations require very little traditional office space and a small office within an industrial property is sufficient.

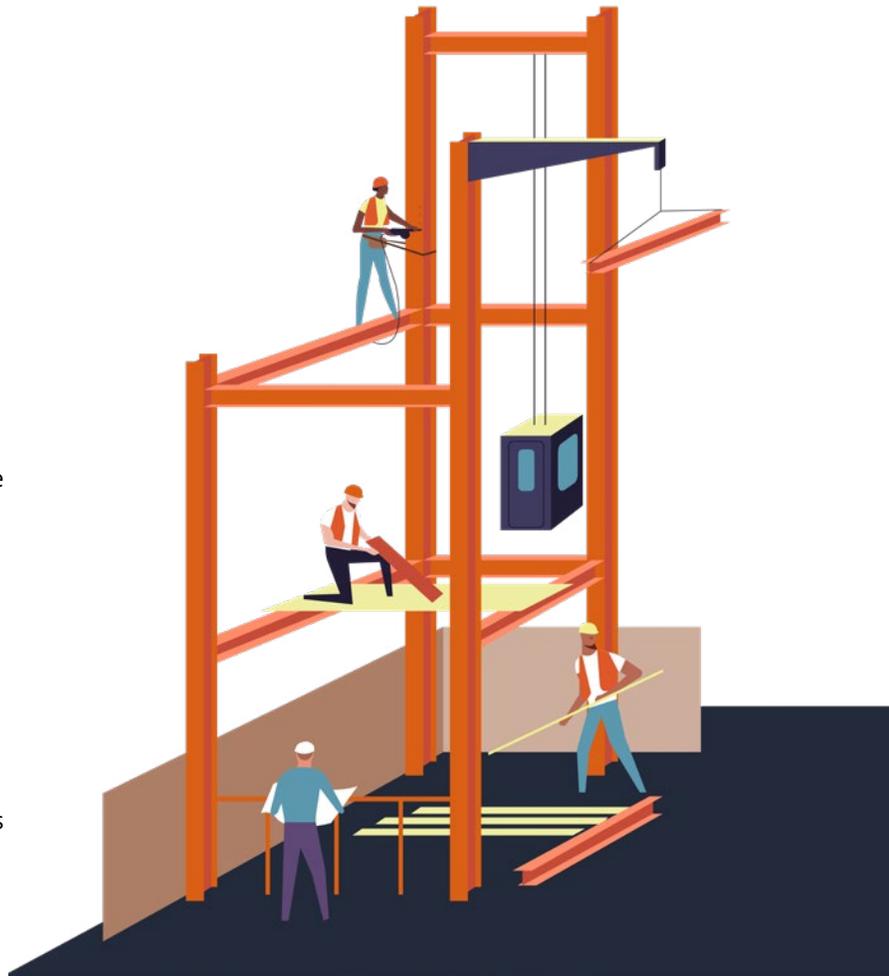
The location of the growing facility is often dictated by the state regulations. Many states require a certain distance from schools and other places frequented by children. The current version of New Jersey's regulations forbids a cannabis establishment to be located or advertise "within 200 feet of an elementary or secondary school grounds, recreation center or facility, arcade, child care center, public park, playground, public swimming pool or library; on or in a public transit vehicle or public transit shelter; on or in publicly owned or operated property."

A trend that we observed in other states was that growers decided to occupy properties away from the traditional industrial properties. If they chose to rent, they typically paid a 25 percent premium over the asking rent and are the lone tenant in the building. Due to the specialized equipment needed, growers will often invest a lot of

their own capital in the space, making them "sticky" tenants.

While recreational use and growth of cannabis have become legal in a handful of states, it is still illegal under federal law. This can create challenges for users and landlords. Due to the continued federal illegality, many banks and lending institutions refuse to lend to landlords with cannabis companies as tenants. This has limited the building options for companies involved in the growing and selling of cannabis to owners that own their buildings outright. This hesitancy to lend might change soon as the federal legalization of cannabis continues to gain traction in Washington, D.C. This past quarter the House of Representatives voted on a measure to legalize cannabis on a federal level.

As the New Jersey real estate community prepares for the cannabis industry to enter the market, it is essential to learn about the challenges and successes experienced in other states across the country.



Market data points

New Jersey	Q4 20	Q4 19
Vacancy	2.7%	2.6%
Rent	\$9.14	\$8.71

Northern NJ	Q4 20	Q4 19
Vacancy	3.0%	3.6%
Rent	\$10.47	\$9.96

Central NJ	Q4 20	Q4 19
Vacancy	2.4%	1.7%
Rent	\$8.86	\$8.43

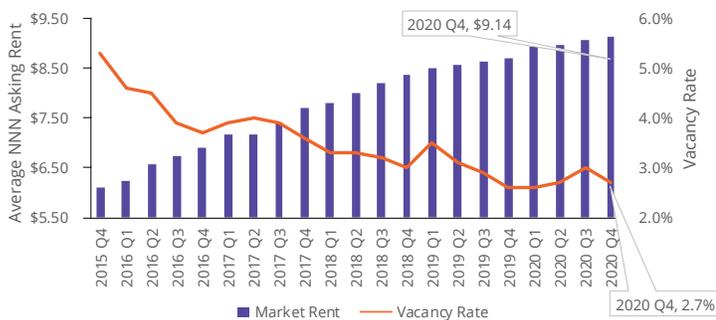
Top leases

Tenant	Address	Submarket	SF	Lease type
1	National Tree Products	150 Milford Road, Hightstown	Mercer/ Central New Jersey	615,000 Direct
2	Currently Unavailable	200 Lundlow Drive, Ewing	Mercer/ Central New Jersey	274,000 Direct
3	Iron Mountain	22 Kimberley Road, East Brunswick	Exit 9- Piscataway/ Central New Jersey	220,328 Sale Leaseback

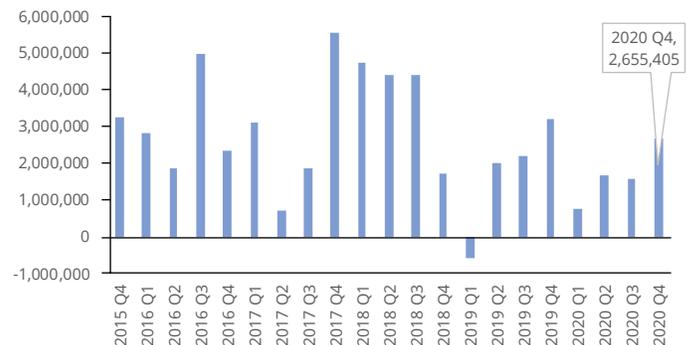
Top sales

Buyer	Address	Submarket	SF	Purchase price
1	Blackstone Real Estate Trust	Iron Mountain Portfolio (13 Properties, 3 in NJ)	Exit 9- Piscataway/ Central New Jersey	2,079,007 (NJ Portion: 429,691) 358,000,000 (NJ portion: \$66,429,975)
2	JFR Global Investments	100 Jefferson Road, Parsippany	Eastern Morris/ Northern New Jersey	553,436 \$85,250,000
3	Harrison Street Capital	111 Ideation Way, Nutley	Suburban Essex/ Rt 280 / Northern New Jersey	163,998 \$36,750,000

New Jersey industrial vacancy rate vs. market rent



Total net absorption



Trends to watch



Will the new administration continue the tariff policy of President Trump?



Will a new Congress and President provide much-needed infrastructure upgrades for New Jersey?

Market by the numbers

Submarket	Inventory (SF)	Direct Vacant (SF)	Sublet Vacant (SF)	Vacancy Rate (%)	Q4 20 Net Absorption	YTD Net Absorption	Current Under Construction (SF)	Market Rent
Bergen Central	21,872,595	764,173	58,200	3.8%	(100,041)	(126,185)	290,385	\$12.07
Bergen North	19,750,746	474,498	7,625	2.4%	(22,815)	41,854	-	\$10.83
Eastern Morris	17,152,137	647,826	49,206	4.1%	81,324	(75,936)	-	\$9.32
Hudson Waterfront	30,478,004	1,147,653	61,500	4.0%	180,486	197,340	-	\$11.31
Meadowlands	90,699,884	2,208,074	435,205	2.9%	(32,832)	1,241,279	433,329	\$10.73
Morris West/I-80	14,570,072	1,221,150	11,000	8.5%	(67,788)	351,386	52,600	\$8.30
Morristown Area	2,920,994	120,569	7,250	4.4%	(23,481)	17,082	-	\$9.81
Newark	37,080,296	565,626	13,500	1.6%	(30,060)	695,667	1,232,144	\$13.07
Northwest Frontier	2,433,624	2,356	-	0.1%	-	29,040	-	\$9.71
Rt. 46/23/3	48,425,599	808,100	71,409	1.8%	435,658	706,801	111,111	\$9.92
West Essex	20,112,250	510,256	9,846	2.6%	165,992	204,942	-	\$9.78
Northern New Jersey	305,496,201	8,470,281	724,741	3.0%	586,443	3,283,270	2,119,569	\$10.47
Exit 8 A	69,406,527	1,037,816	11,156	1.5%	479,593	326,825	1,824,545	\$8.38
Exit 9- Piscataway	50,890,274	1,376,031	115,464	2.9%	(508,888)	308,418	1,537,550	\$9.57
Exit 10- Carteret Avenel	79,116,407	1,016,488	8,880	1.3%	2,069,665	2,346,953	990,517	\$10.05
Mercer	31,552,826	742,020	151,580	2.8%	347,219	(495,299)	1,375,923	\$7.52
Monmouth	16,035,192	647,322	-	4.0%	143,429	307,177	143,833	\$8.35
Somerset	29,562,381	1,435,598	-	4.9%	(630,089)	1,219,547	409,762	\$8.61
Union	58,210,077	1,614,245	-	2.8%	691,276	(93,593)	1,320,943	\$9.30
Central NJ	334,773,684	7,869,520	287,080	2.4%	2,592,205	3,920,028	7,603,073	\$8.86
New Jersey	640,269,885	16,339,801	1,011,821	2.7%	3,178,648	7203298	9,722,642	\$9.14

Unemployment rate rises despite employment growth

As of November 2020, New Jersey's seasonally adjusted unemployment rate was 10.2 percent. This is the third consecutive month that the unemployment rate has increased despite seven straight months of private-sector employment growth, as more people continue to re-enter the labor force and look for jobs. New Jersey has regained only 58.0 percent of the jobs lost since April 2020. The unemployment rate remains 650 basis points higher than it was last year at this time.

New Jersey's unemployment rate also remains 350 basis points higher than the national unemployment rate of 6.7 percent, which has come down from its high in April of 14.7 percent.

In December, Congress passed the Consolidated Appropriations Act, 2021. This bill included an additional direct stimulus payment, more money for the Paycheck Protection Program, a few temporary changes to the tax code, enhanced unemployment benefits through the middle of March 2021 as well as other provisions. It remains to be seen the effect these programs have on the unemployment rate and the economy as a whole.

"New Jersey Economic Recovery Act of 2020" passes in the hopes of making NJ more business-friendly

The New Jersey State Assembly and Senate also passed an important bill to help the state's economy. They voted in favor of the "New Jersey Economic Recovery Act of 2020" which calls for \$14 billion worth of tax subsidies over seven years. These programs were created through a



series of acts outlined in the 249-page bill and included a few of the following:

1. The "Historic Property Reinvestment Act"- Providing tax incentives for the rehabilitation of historic properties.
2. The "Brownfields Redevelopment Incentive Program Act"-Providing assistance to developers to remediate previously polluted sites, to allow for new development.
3. The "New Jersey Innovation Evergreen Act"-This program sells tax credits to generate funds for the state to invest in startups around the state.
4. The "Food Desert Relief Act"- Providing tax credits to encourage the establishments of supermarkets and other grocery stores in underserved areas of the state.
5. The "New Jersey Community-Anchored Development Act"- Provides tax credits to encourage the expansion of targeted industries in select parts of the state.
6. The "New Jersey Aspire Program Act"-This program would provide gap financing to projects that would produce a below-market return but serve a public policy goal. This program replaces the Economic Redevelopment & Growth Program.
7. The "Emerge Program Act"- This program will provide tax incentives to companies that are at risk of leaving the state to attract new companies to the state. The program will serve the same purpose and replace the Grow New Jersey Program.
8. The "Main Street Recovery Finance Program Act"- This program will provide loans and grants to small businesses around the state.
9. The "New Jersey Ignite Act"- The program's goal is to help early innovation companies and create a public-private partnership to help

grow these companies through the use of incubator space and grants.

Proponents of the New Jersey Economic Recovery Act of 2020 applaud the State's effort to keep New Jersey competitive, especially at a time when many businesses are deciding on their next steps after the pandemic. Opponents argue that this is one of the largest tax incentive programs in the country, and one that the state cannot afford, especially after borrowing \$4.28 billion in the most recent state budget.

Multifamily

As with every other sector in real estate, the New Jersey multifamily market has been transformed over the past nine months.

One of the hallmarks of this pandemic is that people spent a lot more time in their homes, which has forced many residents to reevaluate what is important to them. While many people were just looking for a place to lay their heads in the past, now space and amenities play a larger role in people's decision-making process regarding rentals. These amenities include keyless entry, smart office devices as well as concierge services.

With regard to location, while being near a transit hub remains important, having access to a park is working its way up the list as well. Developers are taking note of the change in desires of their clientele and are building larger apartments packed full of amenities to differentiate themselves from the competition.

From an investment perspective, many owners and developers are steering clear of New York City due to the recent rent regulations. This has made New Jersey even more attractive. The strong quality of the residents, coupled with the recent tax incentives, makes New Jersey a highly desirable place for multifamily.

For more market information

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