

New Jersey



Quick Stats

10.2% ↑

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

14.1% ↑

Overall vacancy rate

\$30.74 ↓

Average market rent

-2.2 M ↓

12 month absorption (sf)

Note: Arrows indicate comparison to Q4 2019

Vacancy rates rise as rental rates drop

Vacancy rates have risen 180-basis points since the first quarter of this year to 14.1 percent, and experienced a 120-basis point jump since the fourth quarter of 2019, from 12.9 percent. Market rents dropped only \$.16 year over year to \$30.74/SF. Absorption was negative for the second straight quarter, and it seems that we are starting to see the damage done by the pandemic after a few quarters of relative calm. We expect that in the coming year, availability will increase and rents will fall as the market starts to soften.

Bristol-Myers Squibb signs lease at renovated 9 Roszel Road

Bristol-Myers Squibb signed a 118,110 square-foot lease at 9 Roszel Road in West Windsor. The property is owned by Manulife Investment Management and is scheduled to undergo major renovations, including a cafeteria, updates to the restrooms, and

a redesigned lobby. The life sciences company will occupy the entire three-story building, which is located about a mile from the Princeton Junction train station and near interstate 295.

Gene therapy company takes space at former Bristol-Myers Squibb campus

Passage Bio Inc. signed a 62,000 square-foot lease for lab space at the former Bristol-Myers Squibb campus in Hopewell. The Philadelphia based life sciences company plans on using the space for quality control, process, and development and pilot manufacturing. Passage Bio specializes in gene therapies for rare, monogenic central nervous system disorders. The space is part of Lincoln Equities Group and H.I.G. Realty Partners' Princeton West Innovation Campus, a massive 33 building, 1.14 million-square-foot life sciences campus, which was purchased from Bristol-Myers Squibb earlier this year for \$40 million. Passage Bio has said that the new lab is expected to open in the second quarter of 2021 and that they will add more than 20 new positions to help fill their new space.

118k
sf

BMS' lease at
9 Roszel Rd

LIXIL agrees to lease over sixty thousand feet in Piscataway

Kitchen and bathroom fixture company LIXIL has agreed to lease 60,270 square-feet at the newly renovated 30 Knightsbridge Road in Piscataway. The Japanese company is the parent company to many brands including American Standard, GROHE, INAX, and Tostem, and will join Paychex and QualCare in the Keystone Property Group's 685,000 square-foot complex.

Piedmont sells Bridgewater Crossings, as well as 600 Corporate Drive in Lebanon

Alexander Property Holdings acquired three properties from Piedmont Office Realty Trust this quarter. The New York City-based investor paid \$130 million (\$176/SF) for 200 & 400 Crossing Boulevard in Bridgewater as well as 600 Corporate Drive in Lebanon. The two properties in Bridgewater were both about ninety percent leased at the time of sale while the entire 600 Corporate Drive was available.

Plymouth Rock purchases their corporate HQ from Mack-Cali

After signing a 129,000 square foot lease at 581 Main Street in Woodbridge in 2018, Plymouth Rock decided to purchase the property from Mack-Cali. The insurance company paid \$61 million (\$300/SF) for the 203,335 square-foot building. This is a continuation of Mack-Cali's suburban divestment strategy. Plymouth Rock will continue to maintain its corporate headquarter at the Middlesex County property.

\$300/sf
Price paid for 581 Main St.

KABR cashes in with the sale of 85 Challenger Road

Asia Investment Management (AIM) purchased 85 Challenger Road in Ridgefield Park from KABR Real Estate Investment Partners early in the fourth

quarter of 2020. The South Korean investment company paid \$59.7 million (\$255.67/ SF) for the building that serves as Samsung Electronics' United States headquarters. KABR purchased the property in an all-cash transaction in 2009 for \$10.275 million.

In a separate transaction at the end of the third quarter of 2020, KABR also sold the 269,720 square-foot 55 Challenger Road for \$36.5 million to The Birch Group.

Issue Spotlight: Office leasing market starts to thaw

Since the start of the pandemic, and the subsequent remote working revolution, there has been much ink spilled discussing what will happen to the New Jersey office market. These predictions ranged from mass evictions, with the thought that people would not be able to pay their rents, to a great migration from New York City as companies and their employees decide to leave the tightly packed urban market. In the end, neither of these extreme scenarios took place. Landlords were willing to cut deals to keep some cash flow, and New York City tenants were hesitant to add to their current real estate commitments. In a sense, the market was in a "Deep Freeze," where everyone took a cautious approach to their business.

As we start the new year, the market is beginning to thaw. Users are starting to return to the office and are beginning to assess their needs and current footprint. Owners are starting to get a better idea of the status of their tenants and placing more space on the market. Both of these factors have resulted in over 3 million square feet of negative absorption this quarter, after

months of very little movement.

At the same time, New York City users are starting to gauge their employees' appetite for using public transportation and working in the densely populated Manhattan, while also weighing the benefits that the City provides.

As we look towards the future, we expect the vacancy rate in the New Jersey office market to rise, with the sublease vacancy doubling or tripling from 1.3% over the course of the year. We are also not expecting a major exodus out of New York City as Manhattan's appeal will come back as the cultural life returns.

The entire market will be keeping a close eye on whether companies begin to leave the New York metropolitan area entirely to more tax appealing states in the south and west. A recent example of this thought process is Goldman Sachs who this past quarter discussed plans to move one of its large divisions out of New York City to Florida. In the past, the talent pool's quality has forced many companies to have a significant market presence. With the rise and ease of working remotely, this becomes less of a factor. If this happens, this will fundamentally change New Jersey's office market and make recovery a lot more challenging.



Market data points

New Jersey	Q4 20	Q4 19
Vacancy	14.1%	12.9%
Rent	\$30.74	\$30.92

Northern NJ	Q4 20	Q4 19
Vacancy	14.9%	14.3%
Rent	\$31.85	\$32.13

Central NJ	Q4 20	Q4 19
Vacancy	13.0%	10.9%
Rent	\$29.22	\$29.26

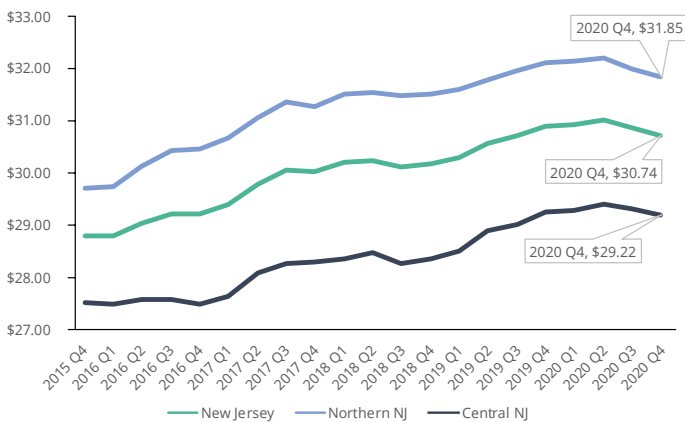
Top leases

Tenant	Address	Submarket	SF	Lease type
1	Bristol Myers Squibb	9 Roszel Road, West Windsor	Princeton South / Central New Jersey	118,110 Direct
2	Passage Bio Inc.	311 Pennington Rocky Hill Road, Pennington	Princeton South / Central New Jersey	62,000 Direct
3	LIXIL	30 Knightsbridge Road, Piscataway	Route 287/ Central New Jersey	60,270 Direct

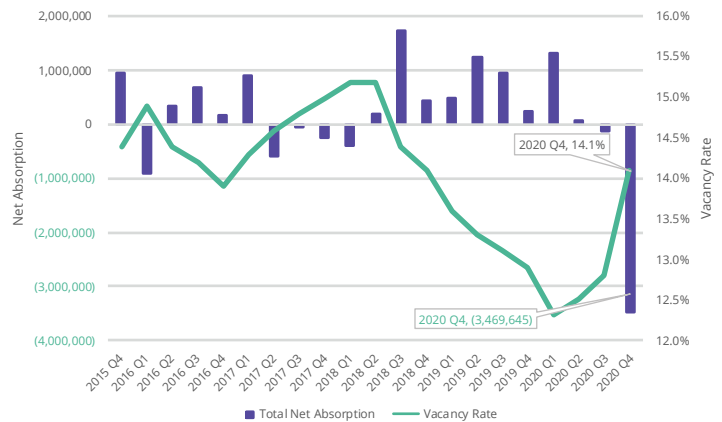
Top sales

Buyer	Address	Submarket	SF	Purchase price
1	Alexander Property Holdings	Bridgewater Crossing, Bridgewater & 600 Corporate Drive, Lebanon	Central New Jersey	738,637 \$130,000,000
2	Plymouth Rock	581 Main Street, Woodbridge	North Edison/ Woodbridge/ Central New Jersey	203,335 \$61,000,000
3	Asia Investment Management	85 Challenger Road	Bergen East/Northern New Jersey	233,505 \$59,700,000

Office market rent



Office total net absorption and vacancy rate



Trends to watch



Will the covid pandemic office downturn be a systemic change to the market?



Will the NJ Economic Recovery Act of 2020 be impactful enough to secure and attract corporate occupiers?

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 Class A	Market Rent Class B
Bergen Central	6,938,737	936,883	109,159	15.1%	(65,084)	(122,604)	-	\$35.07	\$25.77
Bergen East	9,736,531	886,088	111,778	10.2%	(50,151)	192,239	51,750	\$35.16	\$25.42
Bergen North	9,216,588	1,266,409	43,599	14.2%	(317,005)	(337,122)	52,000	\$35.16	\$27.09
Hudson Waterfront	21,465,423	2,708,303	419,417	14.6%	(403,283)	(288,864)	258,317	\$42.59	\$35.30
Meadowlands	6,450,372	776,183	35,623	12.6%	64,013	58,387	-	\$35.99	\$27.95
Morristown Region	11,045,921	1,450,965	201,803	15.0%	(216,787)	(259,696)	-	\$32.77	\$27.54
Newark/ Urban Essex	18,472,968	2,012,056	31,143	11.1%	61,196	433,068	125,000	\$31.08	\$27.95
Northwest Frontier	322,495	9,934	-	3.1%	6,990	5,001	-	-	\$22.85
Parsippany	16,439,168	3,188,535	303,525	21.2%	(134,100)	190,744	-	\$29.02	\$23.57
Short Hills/ Millburn	3,528,573	604,980	134,553	21.0%	(545,341)	(634,587)	-	\$36.93	\$29.70
Suburban Essex/ Rt 280	11,041,594	1,106,873	180,136	11.7%	(106,244)	(254,118)	-	\$26.24	\$23.97
Wayne/ Paterson	6,375,437	717,444	13,000	11.5%	(105,159)	43,659	34,407	\$32.40	\$30.00
Western Morris	3,100,041	1,297,860	-	41.9%	(3,587)	20,364	-	\$26.23	\$22.34
Northern New Jersey	124,133,848	16,962,513	1,583,736	14.9%	(1,814,542)	(953,529)	521,474	\$34.19	\$26.97
Brunswick/South Edison	13,073,976	1,461,721	127,979	12.2%	(29,568)	177,484	40,000	\$33.76	\$26.72
Hunterdon Cluster	4,664,744	1,190,933	101,641	27.7%	(847,086)	(932,621)	-	\$26.43	\$23.16
Monmouth	11,610,543	1,091,110	89,262	10.2%	(102,248)	(104,979)	25,500	\$34.76	\$26.06
North Edison/ Woodbridge	6,270,272	871,247	90,982	15.3%	(248,080)	(212,445)	-	\$38.51	\$26.67
Princeton North	2,010,054	110,915	39,799	7.5%	180,685	178,045	-	\$28.06	\$26.68
Princeton South	18,089,323	1,470,655	105,808	8.7%	(52,364)	(179,008)	-	\$33.27	\$26.19
Route 22 West	5,161,474	413,585	412,593	16.0%	(93,157)	(95,866)	-	\$27.77	\$22.20
Route 287	9,473,142	1,260,051	53,508	13.9%	(19,552)	(83,959)	-	\$23.46	\$22.77
Route 78 East	15,851,203	2,202,571	220,939	15.3%	(444,413)	12,473	-	\$28.90	\$24.87
Union	4,507,231	430,364	20,124	10.0%	680	588	276,818	\$27.25	\$23.59
Central NJ	90,711,962	10,503,152	1,262,635	13.0%	(1,655,103)	(1,240,288)	342,318	\$31.27	\$25.10
New Jersey	214,845,810	27,465,665	2,846,371	14.1%	(3,469,645)	(2,193,817)	863,792	\$32.97	\$26.17

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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