

New Jersey



Quick Stats

7.8% ↑

New Jersey's unemployment rate (National rate 6.2%)

21.6% ↑

Overall availability rate

\$29.38 ↓

Average market rent

-4.6 M ↓

12 month absorption (sf)

Note: Arrows indicate comparison to Q1 2020

Availability rates rise as rental rates drop

Office availability rates have risen 400 basis points since the first quarter of 2020 from 17.6 percent to 21.6 percent. Market rents dropped \$.27 year over year to \$29.38/sf. Absorption was negative for the third straight quarter.

St. Joseph's Health agrees to take more space in Totowa

St. Joseph's Health announced earlier this quarter that they will be leasing an additional 80,000 square feet at 169 Minnisink Road in Totowa. This recent lease brings the Paterson-based health system footprint in the built-to-suit complex to 140,000 square feet. Community Healthcare Associates, based in Bloomfield, New Jersey, is building the two-phased complex, with the first phase expected to be completed in the fourth quarter of 2021. The completion date for the second phase is expected in late 2022.

Mallinckrodt Pharmaceuticals returns to 53 Frontage Road after bankruptcy

Mallinckrodt Pharmaceuticals leased 100,000 square feet at 53 Frontage Road in Hampton. This is the Irish-based life science firm's second stint at the Shelbourne Global-owned property. Mallinckrodt left the property in 2017 to relocate to 1405-1425 Route 206 in Bedminster but agreed to move back in a consolidated space as a result of an agreement that emerged from the company's bankruptcy filing.

Lone Star Funds sells 170 Park Avenue in Florham Park

Less than two years after signing biotech company Celularity to a 17-year NNN deal, Lone Star Funds has sold 170 Park Avenue in Florham Park to JLL Income Property Trust. The three-story Class A office building, which underwent significant capital improvements, sold for \$46.6 million. Lone Star purchased the property in 2015 for \$28.4 million as part of a 15 multi-state purchase. This is the 85th property in JLL Income Property Trust's portfolio, which is valued at approximately \$3.5 billion.

The Birch Group acquires over 400K portfolio in Morristown

The Birch Group has added four more properties to the firm's ever-growing portfolio. The Nanuet-based company paid \$77 million for a four-property Morristown portfolio which includes: 60 Columbia Road Bldg. A, 60 Columbia Road Bldg. B, 100 Southgate Parkway and 1200 Mount Kemble Avenue. The Birch Group is looking to make additional renovations to the 407,635 square foot portfolio beyond \$6.7 million made by the seller, Lincoln Equities Group.

Mack-Cali continues suburban sell-off

Mack-Cali continued their sell-off with the sale of its Metro Park portfolio (333 & 343 Thornall Street in Edison and 99 & 101 Wood Avenue South in Iselin) to Liberty Properties for \$254 million. At the time of the sale, the portfolio was 90 percent leased. This is Liberty Properties' second large purchase in Metro Park, the New York-based real estate investment firm purchased 194 Wood Avenue South last year.

Mack-Cali also sold 100 Overlook Center in Princeton.

The Jersey City REIT sold the 158,180, four-story office property for \$38 million to Cali Overlook Realty.

The property was 91 percent leased at the time of sale and includes tenants such as Trustees of Princeton University, Regus and Certara USA.



Topic Spotlight- Medical office: Just what the doctor ordered in an uncertain office market

As the pandemic took hold during the first quarter of 2020, most people began a lockdown and rarely left their homes. This started a revolution of people working from home, shopping from home and seeing their doctors from home. As a result,

there was a boom in telemedicine. While telemedicine existed prior to the pandemic, it was rarely used by patients and their doctors. To illustrate the incredible growth of this service, data from the University of Michigan healthcare system shows that in the months before the pandemic, they conducted around 400 telemedicine visits a month. In April 2020, that number rose to around 30,000, and by the end of May, they conducted around 40,000 visits.

This unbelievable phenomenon was aided by some changes in federal regulation, including the relaxation of the state licensing requirements, the equipment used, privacy concerns and how healthcare services are charged and reimbursed. As this trend continued throughout the pandemic, many experts believed that telemedicine would be here to stay even after the pandemic and that medical office building owners were going to suffer as a result. But recent leasing activity in New Jersey seems to dispel that hypothesis, at least for the time being.

Over the past few months, numerous health systems have signed large leases to expand their presence in the Garden State. Summit Medical Group agreed to lease 40,000 square feet at Seymour Redevelopment at the Wellmont Theater. The mixed-development project owned by Ironstate Development Company will include 200 multifamily units as well as retail and office.

Atlantic Health also leased new space. The Morristown-based health system opened a 28,000-square-foot urgent care facility at 142 Central Avenue in Clark. The new facility was the result of a \$6 million renovation.

Englewood Health also joined the fray by making their largest investment in Hudson County. The Bergen County-based health system leased 75,000 square feet at Journal Square. They are hoping to capitalize on the

influx of residents to the area due to numerous multifamily projects taking place in the area. They are expecting their three-floor space to include urgent care and primary care as well as some specialty services.

As we mentioned earlier in the report, St. Joseph's Health announced earlier in the first quarter that they will be leasing an additional 80,000 square feet at 169 Minnisink Road in Totowa. Once both phases of this project are complete, the Paterson-based health system will occupy around 140,000 square feet.

The final deal we will highlight displaying the strong push by medical systems to continue to occupy large blocks of space is Cooper University Health Care's lease of 165,000 square feet in the Moorestown Mall. The southern New Jersey/Philadelphia health system will take over space formally occupied by Sears and will open a specialty care facility. While this deal did not occur in northern New Jersey, we thought it was important to highlight as this might be the beginning of a trend that we see throughout the state, with many malls struggling and health systems need for large blocks of space.

If these past few months have been an indication, even with changes occurring to the way healthcare can be provided, the medical office market will remain healthy.



Market data points

New Jersey	Q1 21	Q1 20
Availability	21.6%	17.6%
Rent	\$29.38	\$29.65

Northern NJ	Q1 21	Q1 20
Availability	22.6%	18.7%
Rent	\$30.47	\$30.86

Central NJ	Q1 21	Q1 20
Availability	20.2%	16.1%
Rent	\$27.89	\$28.03

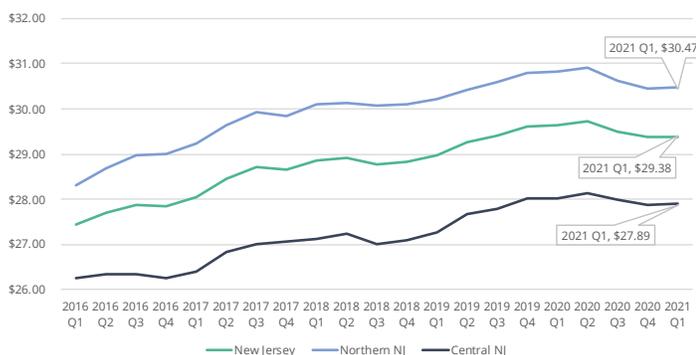
Top leases

Tenant	Address	Submarket	SF	Lease type
1	Mallinckrodt Pharmaceuticals	53 Frontage Rd, Hampton	Hunterdon Cluster / Central New Jersey	101,641 Sublease
2	St. Joseph's Medical	169 Minnisink Road, Totowa	Wayne/Paterson / Northern New Jersey	~80,000 Direct
3	ZT Systems	200 Plaza Drive, Secaucus	Meadowlands/ Northern New Jersey	63,235 Direct

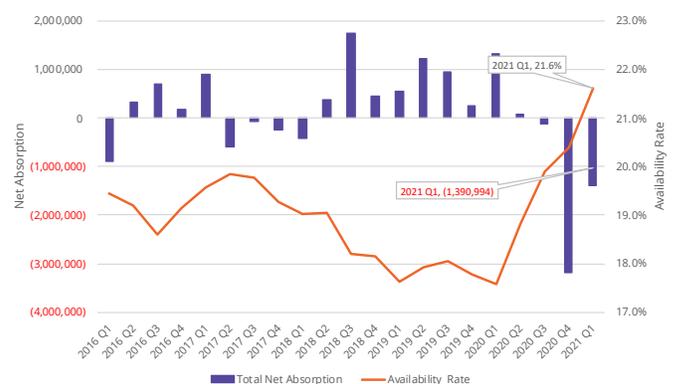
Top sales

Buyer	Address	Submarket	SF	Purchase price
1	Liberty Properties	Mack-Cali Metro Park Portfolio (4 Buildings)	North Edison/ Woodbridge/ Central New Jersey	931,660 \$254,000,000
2	JLL Income Property Trust	170 Park Avenue, Florham Park	Morristown Region/ Northern New Jersey	147,215 \$46,600,000
3	Cali Futures	100 Overlook Center, Princeton	Princeton South/Central New Jersey	158,180 \$38,000,000

Office market rent



Office total net absorption and availability rate



Trends to watch



There is talk in Congress regarding amending the cap of SALT tax deductions. What changes will happen, and will it be enough to keep residents in New Jersey?



As of April 6th, 25 percent of the New Jersey adult population is fully vaccinated. What effect will this have on the timing of companies returning to office?

Market by the numbers

Submarket	Inventory (SF)	Direct Available (SF)	Sublet Available (SF)	Availability Rate (%)	Vacancy Rate (%)	Q1 21 Net Absorption	Current Under Construction (SF)	Market Rent Class A	Market Rent Class B
Bergen Central	6,888,002	1,235,392	132,458	19.9%	15.6%	(7,150)	-	\$34.50	\$26.06
Bergen East	9,737,403	1,286,061	247,691	15.5%	11.5%	(40,350)	51,750	\$34.83	\$26.12
Bergen North	8,995,711	1,656,685	201,890	20.7%	13.3%	(98,539)	52,000	\$34.55	\$26.29
Hudson Waterfront	21,566,282	4,360,404	1,012,038	24.9%	15.1%	77,800	258,317	\$42.88	\$35.13
Meadowlands	6,200,372	885,662	360,678	18.4%	13.1%	36,407	-	\$34.77	\$27.81
Morristown Region	10,863,623	1,799,151	672,077	22.7%	14.0%	3,526	121,000	\$32.54	\$27.07
Newark/ Urban Essex	18,592,052	2,581,166	647,377	17.4%	14.9%	(269,757)	-	\$31.15	\$27.53
Northwest Frontier	322,495	9,934	0	3.1%	3.1%	-	-	-	\$22.51
Parsippany	16,493,024	4,749,168	846,268	32.8%	23.8%	(192,488)	-	\$28.59	\$24.45
Short Hills/ Millburn	3,528,573	1,007,645	149,399	32.8%	22.4%	(17,745)	-	\$37.19	\$29.63
Suburban Essex/ Rt 280	11,041,594	1,501,518	69,883	14.2%	10.6%	(11,378)	-	\$26.18	\$23.77
Wayne/ Paterson	6,372,003	1,498,753	0	23.8%	12.1%	4,942	-	\$32.00	\$30.62
Western Morris	3,102,041	1,363,120	7,000	44.2%	42.3%	(14,217)	-	\$25.94	\$21.71
Northern New Jersey	123,703,175	23,934,659	4,364,942	22.6%	16.0%	(528,949)	483,067	\$34.05	\$26.94
Brunswick/South Edison	13,082,706	2,118,302	380,367	19.1%	15.0%	(294,659)	40,000	\$33.55	\$27.94
Hunterdon Cluster	4,664,744	1,349,409	103,141	31.1%	28.2%	(330)	-	\$26.40	\$23.05
Monmouth	11,636,558	1,376,189	351,179	14.8%	10.0%	38,924	107,500	\$34.10	\$23.15
North Edison/ Woodbridge	6,245,529	891,769	210,006	17.6%	15.4%	119,553	-	\$38.16	\$27.02
Princeton North	2,010,054	339,692	61,092	19.5%	18.2%	(211,987)	-	\$27.30	\$26.63
Princeton South	18,104,166	2,065,670	344,834	13.3%	8.6%	56,005	-	\$33.25	\$26.43
Route 22 West	5,158,854	560,864	568,390	21.9%	17.2%	(56,623)	-	\$27.82	\$22.11
Route 287	9,473,142	1,998,288	221,853	23.4%	18.1%	(86,046)	-	\$23.68	\$23.01
Route 78 East	15,851,202	3,518,937	1,045,738	28.3%	18.7%	(462,990)	-	\$28.91	\$24.60
Union	4,742,049	958,085	16,172	20.5%	14.6%	36,108	42,000	\$27.00	\$23.15
Central NJ	90,969,004	15,177,205	3,302,772	20.2%	15.0%	(862,045)	189,500	\$31.22	\$24.73
New Jersey	214,649,681	39,111,864	7,667,714	21.6%	15.5%	(1,390,994)	672,567	\$32.84	\$26.02

New Jersey



Quick Stats

7.8% ↑

New Jersey's unemployment rate (National rate 6.2%)

2.5% —

Overall vacancy rate

\$10.03 ↑

Market rent (NNN)

8.1 M ↓

12 month absorption (sf)

Note: Arrows indicate comparison to Q1 2020

The vacancy rate seemed to have bottomed out, as rent continues to rise

The industrial vacancy rate was 2.5 percent at the close of the first quarter this year. This is the same rate it was during the first quarter of 2020. While NNN rents have risen to \$10.03 per square foot. The market has experienced its eighth straight quarter of positive absorption.

Bob's Discount Furniture leases space Duke Realty Corp. building in Piscataway

Bob's Discount Furniture leased 622,230 square feet at 150 Old New Brunswick Road in Piscataway. The Duke Realty Corp. property is currently under construction and is expected to be completed in the third quarter of 2021. The furniture chain will occupy the entire property, which features 125 dock doors, 127 trailer spaces, 302 parking spaces, and 40-foot ceilings.

Lincoln Equities Group massive redevelopment in Bayonne found an anchor tenant in UPS

Lincoln Equities Group announced that

UPS would serve as the anchor tenant at their soon-to-be-built industrial park at the former Military Ocean Terminal in Bayonne. UPS will lease the property to serve as a new 880,000-square-foot distribution center and is expected to create about 1,000 new jobs. The property is just eight miles from the Holland Tunnel and provides great access to Newark Liberty Airport, New York City, and the surrounding ports.

~1k

Jobs created by new UPS facility

Elion Partners purchases 207,000-SF property in the shadow of Newark Liberty Airport

Miami-based real estate investment firm Elion Partners purchased 1000 Jefferson Avenue in Elizabeth as well as the adjacent parking lot for \$29.7 million. The 207,000-square-foot property was previously owned by The Seyon Group and Wheelock Street Capital, who bought it in 2019 for \$24.8 million. The property was renovated in 2019 and has 16' ceilings and is close to Newark Liberty Airport.

Topic Spotlight- Will the rising cost of steel trip up the industrial market?

It is well known that the industrial market is very tight and has produced extremely high rental rates both in the New Jersey market and the rest of the country. These high rents have made the industrial sector very popular with investors and have led to an incredible amount of new construction over the past few years. Since 2017 there have been 35.7 million square feet delivered to the northern New Jersey market, with 9.8 million of that since the beginning of 2020. This incredible amount of building is not just in the northern New Jersey market. Since 2017 there has been 1.6 billion square feet of industrial space built nationwide, with 502.2 million of that since the beginning of 2020 and it seems like the building is not done yet. There is still a tremendous amount of new construction in the pipeline, with 9.9 million square feet under construction and another 26.1 million square feet proposed in northern New Jersey alone.

This remarkable amount of building, along with shutdowns of factories and supply chains over the year due to the pandemic, has created a shortage of many of the critical materials needed such as lumber, concrete, and steel. These shortages combined with the high demand have driven up pricing on all these materials over the past few months, in some cases greater than 25 percent since December 2020.

For many contractors and developers of industrial properties, the steel shortage and price increases have been the most significant concern. Steel's strength and versatility has made it an essential and in some case irreplaceable part of the construction of industrial properties. The demand for the current stock of steel has become so great that there are even reports of steel mills telling customers that they are no longer accepting orders for 2021 and that there is a waitlist for 2022 orders. This could have a devastating effect on the timing of construction for developers who have failed to secure their steel supply.

Many believe that the new increased price is here for the long-term as a result of the strong demand both within the industrial and other sectors and that consumers will become accustomed to the new pricing. There are even some who believe that due to the current federal administration and the push to "greener" building practices that the cost of steel will continue to increase.

The process of making steel requires a lot of energy and involves many chemical reactions that produce numerous carbon emissions. There are estimates that steel production produces between 7 and 10 percent of the total carbon emissions on the planet. While there has

been some experimenting with new more environmentally friendly processes, it is still a work in progress, and the processes that work are estimated to be between 16 and 25 percent more expensive. It remains to be seen if the market for more "environmentally friendly" steel picks up.

With the price of many construction goods including steel rising, the question is, what impact will this have on the end-user of the industrial product? With industrial rents already extremely high, will this push rents higher, or will developers accept a smaller yield? Only time will tell.

16-25%
Estimated
add'l cost of
"green" steel



Market data points

New Jersey	Q1 21	Q1 20
Vacancy	2.5%	2.5%
Rent	\$10.03	\$9.01

Northern NJ	Q1 21	Q1 20
Vacancy	3.2%	3.2%
Rent	\$11.01	\$10.21

Central NJ	Q1 21	Q1 20
Vacancy	1.9%	1.9%
Rent	\$9.57	\$9.12

Top leases

Tenant	Address	Submarket	SF	Lease type	
1	UPS	Lincoln Logistics Bayonne	Hudson Waterfront/ Northern New Jersey	~880,000	Direct
2	Bob's Discount Furniture	150 Old New Brunswick Road, Piscataway	Exit 9- Piscataway/ Central New Jersey	622,230	Direct
3	Melisa and Doug	380 Deans Rhode Hall Rd, South Brunswick	Exit 8/ Central New Jersey	500,000	Direct

Top sales

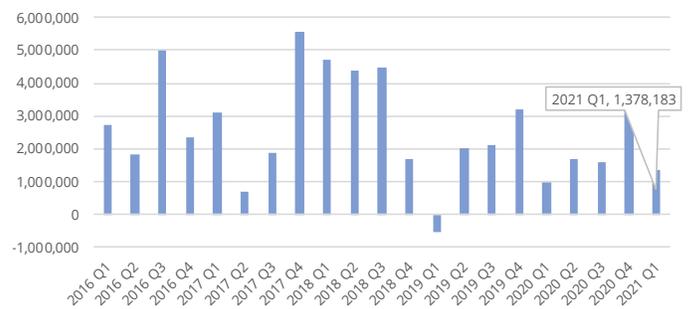
Buyer	Address	Submarket	SF	Purchase price	
1	Elexter Property Group	111 Bauer Drive, Oakland	North Bergen/ Northern New Jersey	120,720	\$23,700,000
2	Elexter Property Group	3070 Rt 22 W, Branchburg	Somerset/ Central New Jersey	223,658	\$21,400,000
3	Elion Partners	1000 Jefferson Avenue, Elizabeth	Union/ Northern New Jersey	207,000*	\$29,700,000

* The sale include and adjacent .85 AC Lot

New Jersey industrial vacancy rate vs. market rent



Total net absorption



Trends to watch



The effect the expected infrastructure plan by President Biden will have on New Jersey bridges, tunnels, roads, and ports.



How will the legalization of cannabis in New York State affect the New Jersey cannabis and industrial markets?

Market by the numbers

Submarket	Inventory (SF)	Direct Vacant (SF)	Sublet Vacant (SF)	Vacancy Rate (%)	Q1 21 Net Absorption	Current Under Construction (SF)	Market Rent
Bergen Central	21,895,979	549,244	36,000	2.7%	220,845	459,773	\$12.33
Bergen North	19,891,345	429,589	625	2.2%	258,867	-	\$9.99
Eastern Morris	17,103,697	623,251	58,779	4.0%	(31,839)	75,500	\$10.81
Hudson Waterfront	29,771,751	1,008,711	101,900	3.7%	(9,903)	704,432	\$11.74
Meadowlands	90,719,471	2,273,904	262,023	2.8%	368,350	446,919	\$11.97
Morris West/I-80	14,514,672	1,177,397	11,308	8.2%	12,606	28,000	\$8.52
Morristown Area	2,918,289	105,569	6,452	3.8%	69,438	-	\$9.38
Newark	37,212,912	572,173	2,370	1.5%	19,935	1,308,044	\$10.53
Northwest Frontier	2,464,624	2,356	0	0.1%	12,500	-	\$10.48
Rt. 46/23/3	48,488,067	2,177,613	87,509	4.7%	(1,126,393)	111,111	\$10.22
West Essex	20,148,786	368,873	0	1.8%	60,708	215,221	\$11.07
Northern New Jersey	305,099,593	9,288,680	566,966	3.2%	(144,886)	3,349,000	\$11.01
Exit 8 A	70,299,337	572,205	183,405	1.1%	250,492	953,595	\$8.66
Exit 9- Piscataway	50,847,825	878,113	22,500	1.8%	99,211	1,509,850	\$9.85
Exit 10- Carteret Avenel	79,314,418	661,002	8,880	0.8%	776,192	990,517	\$10.47
Mercer	31,719,776	732,072	151,580	2.8%	(1,414)	1,229,973	\$7.67
Monmouth	16,191,841	709,702	0	4.4%	(912)	129,500	\$8.59
Somerset	29,640,745	912,990	0	3.1%	588,510	409,762	\$9.78
Union	58,170,628	1,290,640	227,455	2.6%	(189,010)	1,320,943	\$10.22
Central NJ	336,184,570	5,756,724	593,820	1.9%	1,523,069	6,544,140	\$9.58
New Jersey	641,284,163	15,045,404	1,160,786	2.5%	1,378,183	9,893,140	\$10.03

The unemployment rate stays at 7.8 percent

As of February 2021, New Jersey's seasonally adjusted unemployment rate was 7.8 percent. Except for a jump to 10.2% in November 2020, the unemployment rate has stayed about the same since September 2020. New Jersey's unemployment rate is 160 basis points higher than the national unemployment rate of 6.2 percent. Both the state and federal unemployment rate looks to be plateauing. As the vaccine continues to roll out, we will see its effect on people returning to work, entering the job force and the unemployment rate.

Congress passes a third COVID-19 relief bill

In March, Congress passed the [American Rescue Plan Act of 2021](#). This bill included a third direct stimulus payment which includes an extension of expanded unemployment benefits of \$300 through September 2021, more money for the Paycheck Protection Program, expansion of the child tax credit, aid to assist in the testing and vaccine efforts, aid to local and state governments (New Jersey received an estimated \$9.3 billion, including approximately \$6.4 billion for the state and \$2.9 billion to counties and municipalities), funding to assist in reopening schools, as well as many other provisions. The bill's total cost was \$1.9 trillion, bringing a total of the three COVID-19 relief bills to around \$4.8 trillion (for reference, total outlays for the 2019 fiscal year were \$4.4 trillion). Opponents of the bill have argued that it is too large and may have a long-lasting negative effect on the economy. It remains to be seen what short-term as well as long-term impact these programs will have on the

\$4.8t
All three COVID-19 relief bills

unemployment rate and the economy.

Governor Murphy announced his budget for the 2022 fiscal year

Governor Murphy announced his budget for the 2022 fiscal year which begins in June 2021. This is the final budget before all 120 seats in the state legislature and the role of Governor are up for election. The Governor's proposed plan calls for \$44.8 billion in spending, including tapping into \$4.4 billion of the state's \$6.3 billion surplus from last year's budget. The state looks like it is in a better financial situation largely due to the \$4.3 billion of borrowing included in last year's budget as well as an improved revenue outlook.

Two of the proposal highlights include no new proposed taxes and full payment to the state's pension fund.

The Governor has decided not to pursue new tax increases to income, sales, cigarettes, corporations, and other items he has pushed for in the past. The administration has stated that due to higher than expected tax collection, the state will add an additional \$4.2 billion to its surplus, while the state Treasury Department is forecasting a 2.4 percent jump in state revenues.

The Governor has also decided to make a record contribution to the state's public worker pension fund. For the first time since 1996, the state would make a 100 percent contribution totaling \$6.4 billion. This is part of a plan by the

Governor to remedy years of skipped or shortened payments to the pension system. Officials at the State Treasury have estimated that making this full payment will save the state around \$860 million over the next 30 years.

Opponents of the proposed budget argue this budget will cause significant fiscal damage in the long-term and lead to tax increases in the future. They have said that the budget is not doing enough to make the state more affordable and that this is just an "election-year budget" that will need to be paid back down the road. Some have suggested paying down some of the state's outstanding debt would have been a better use of the surplus.

As the state moves forward past the pandemic, the state will need to solve the demographic shift that is occurring in the country. More companies and residents are leaving the northeast for more business and tax-friendly states in the south and west. This migration has only increased as remote work has become more acceptable. New Jersey was ranked one of the top states that people moved out of this year. It remains to be seen what the final budget looks like and if it will stem the tide of people and companies leaving the state.



For more market information

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