

New Jersey

Office Market Facts

4.6% ↓

New Jersey's unemployment rate
(national rate 4.1%)

15.6% ↑

Overall vacancy rate

\$27.21 ↑

Average direct asking rent

-879,006 ↓

12-month absorption (SF)

New Jersey Economy

Unemployment drops; With shifts in the economy comes new challenges

In February 2018, all nine of New Jersey's major private industry sectors added jobs, helping reduce New Jersey's unemployment rate by 10 basis points to 4.6 percent. The state's unemployment rate is now 50 basis points above the national rate of 4.1 percent.

Evidenced by the strength of the industrial market, the New Jersey economy has clearly shifted, becoming more reliant on the success of e-commerce and distribution services. As this shift continues, two issues may threaten the economy's recent success: The state's deteriorating infrastructure and a shortage of truck drivers.

New Jersey has over 2,800 miles of interstates and highways providing companies access to millions of customers up and down the east coast. Many of these roads and bridges have deteriorated to the point that in 2016 the American Society of Civil Engineers rated New Jersey's infrastructure a D+. While there was hope that New Jersey would receive a large share of federal funding to address these infrastructure issues, recent developments indicate that the federal government is placing attention on infrastructure projects in other parts of the country. In 2016, with the intention of remedying New Jersey's infrastructure crisis, the state passed a 23 cent per gallon gas tax. Time will tell if this gas tax will be able to help upgrade New Jersey's infrastructure and allow our economy to continue to prosper in the coming decades.

The second pressing issue facing New Jersey's economy is a truck driver shortage. This issue has the potential to dampen much of the recent success e-commerce and distribution have had in New Jersey. With the shortage of drivers to transport goods within and out of the state, the cost of goods will rise rapidly. Many trucking companies are finding it very difficult to attract young talent to a job that historically requires significant manual labor as well long stretches of time away from family, all with relatively low pay. Another major contributing factor is the acceleration in driverless truck technology, making the profession unattractive to much of the younger population, fearful of becoming obsolete at some point in the future.

The state has enjoyed many years of economic success due to its prime location and proximity to many major population centers. In order to maintain this recent success, the state must find solutions to these pressing issues.

Office

Tax credits keep Momentum Solar in New Jersey

One of the largest direct leases announced during first quarter of 2018 was Momentum Solar's lease of 3096 Hamilton Boulevard in South Plainfield. The solar company is expanding from its Metuchen based headquarters to the two-story 61,240 square foot property. The company decided to maintain its operations in New Jersey after receiving a performance-based tax credit worth up to \$7.2 million over 10 years.

McLaren Engineering opens first New Jersey office

Another major direct lease was McLaren Engineering Group's transaction at 530 Chestnut Ridge Road in Woodcliff Lake. The engineering firm, headquartered in New York City, will be opening their first New Jersey office in space formerly occupied by the KPMG site.

Vacancy jumps 80 basis points as rent remains flat

There was an 80-basis point jump in the vacancy rate since the first quarter of 2017, to 15.6 percent, while direct asking rents remained relatively flat at \$27.21. Net absorption was negative for the second straight quarter while leasing activity fell to 1.2 million square feet from 2.5 million square feet in first quarter of 2017.

Mack Cali finishes repositioning as GI Partners adds to their portfolio

One of the largest office sales in the first quarter of 2018 was Mack-Cali's sale of 35 Waterview Boulevard to Miami Beach-based YMP Real Estate Management. The building traded for \$28.15 million (\$163.19 per square foot). This transaction comes as Mack-Cali is finishing its campaign to sell off many of its suburban assets to continue to focus on the Hudson Waterfront. At the time of the deal, the property was 95.7 percent leased, anchored by Sun Chemical occupying a little more than 65,000 square feet. Another large deal this quarter was GI Partners' acquisition of 492 River Road in Nutley. The 130,000 square foot property is split between office and data center space. The property has one tenant, BT Americas, a division of British Telecommunications who uses the property as a mission-

critical facility for cloud services and disaster recovery.

Market Spotlight Parkway North A market in flux

The Parkway North submarket consists of Woodcliff Lake, Montvale and Park Ridge and is located around the last few exits of the Garden State Parkway on the New York state border. What once was a hotbed of major corporate campus facilities, this submarket has now left many real estate professionals wondering what's next. Over the past few years, major corporations such as Hertz, Sony, Mercedes and big data company Syncsort have relocated out of the market, and many experts believe this might just be the beginning.

While many of characteristics that originally attracted companies to this submarket remain in place such as proximity to New York and a quality labor pool, it is not proving to be enough for some companies. The challenges that the Parkway North submarket faces is a lack of strong public transportation that has helped markets such as Jersey City, Morristown, and Summit to grow, as well as the increase in the cost of living in Northern New Jersey. While in the past the Parkway North submarket was able to overcome these challenges, advances in technology have diminished the need for companies to be within close proximity to New York City. Furthermore, states such as Georgia and Florida have provided significant incentives for companies to relocate. Through this perceived exodus, KPMG has continued to maintain

its strong presence in the market. They have recently purchased and significantly renovated 75 Chestnut Ridge Road in Montvale and are reported to be in the market for an additional 100,000 square feet.

Looking ahead, market observers will focus on the potential domino effect the departure of Hertz and Mercedes might continue to have on other large corporations in this submarket as well the companies that service them. Observers will also be interested in the pressure placed on direct asking rents as result of large blocks of space available in the market.

Trends to Watch

- There has been a race to the top as owners introduce better amenities to attract and maintain tenants
- The potential impacts of Amazon selecting Newark as its HQ2 site

Market Data Points

New Jersey

Indicator	1Q18	1Q17
Vacancy	15.6%	14.8%
Rent	\$27.21	\$27.25

Northern New Jersey

Indicator	1Q18	1Q17
Vacancy	16.3%	15.5%
Rent	\$27.77	\$27.84

Central New Jersey

Indicator	1Q18	1Q17
Vacancy	14.5%	13.8%
Rent	\$26.41	\$26.62

Select Sale Transactions

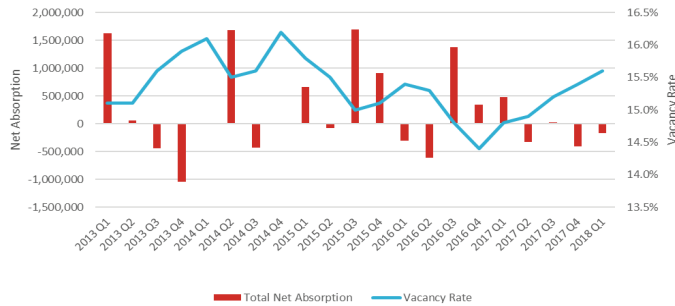
Building	Submarket/Market	Sale Price	Price PSF	Size (SF)
492 RIVER ROAD, NUTLEY	NEWARK-URBAN ESSEX / NORTHERN NEW JERSEY	\$42,900,000	\$330	130,009
35 WATERVIEW BOULEVARD, PARSIPPANY	PARSIPPANY / NORTHERN NEW JERSEY	\$28,200,000	\$163	172,498
358 GEORGE STREET, NEW BRUNSWICK	BRUNSWICK-SOUTH EDISON / CENTRAL NEW JERSEY	\$10,500,000	\$194	54,180
20 WATERVIEW BOULEVARD, PARSIPPANY	PARSIPPANY / NORTHERN NEW JERSEY	UNDISCLOSED	UNDISCLOSED	235,000

Select Lease Transactions

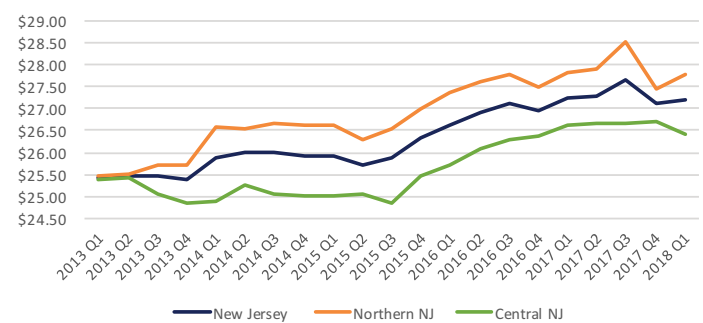
Tenant	Building	Submarket/Market	Type	Size (SF)
LONZA AMERICA	412 MOUNT KEMBLE, MORRISTOWN	MORRISTOWN REGION / NORTHERN NEW JERSEY	RENEWAL	82,638
MOMENTUM SOLAR	3096 HAMILTON BOULEVARD, SOUTH PLAINFIELD	BRUNSWICK-SOUTH EDISON / CENTRAL NEW JERSEY	DIRECT	61,240
AMNEAL PHARMACEUTICAL	200 CROSSING BOULEVARD, BRIDGEWATER	RT. 22 WEST / CENTRAL NEW JERSEY	RENEWAL / EXPANSION	53,758
MCLAREN ENGINEERING GROUP	530 CHESTNUT RIDGE ROAD, WOODCLIFF LAKE	BERGEN NORTH / NORTHERN NEW JERSEY	DIRECT	45,359

Market at a Glance

New Jersey Office Total Net Absorption and Vacancy Rate



Overall New Jersey Office Direct Asking Rent



Market by the Numbers

Submarket	Inventory (SF)	Direct Vacant (SF)	Sublet Vacant (SF)	1st Quarter 2018 Overall Vacancy Rate	1st Quarter 2018 Net Absorption (SF)	Current Under Construction (SF)	Overall Average Asking Rent Class A	Overall Average Asking Rent Class B
Bergen Central	6,699,888	1,072,502	38,475	16.6%	113,751	-	\$29.55	\$24.26
Bergen East	8,532,841	1,007,455	64,639	12.6%	55,893	360,000	\$29.68	\$26.04
Bergen North	9,278,363	1,126,964	53,829	12.7%	-62,179	-	\$30.22	\$23.60
Hudson Waterfront	21,397,131	2,606,564	435,568	14.2%	-25,123	-	\$40.19	\$31.92
Meadowlands	6,451,267	911,799	128,350	16.1%	194,667	-	\$27.29	\$22.62
Morristown Region	11,126,688	1,868,362	193,068	18.5%	47,626	-	\$30.13	\$23.26
Newark/Urban Essex	17,590,586	3,345,295	110,862	19.6%	-137,425	467,532	\$30.68	\$25.79
Northwest Frontier	411,444	43,662	495	10.7%	2,635	-	-	\$17.44
Parsippany	17,246,805	2,969,634	375,139	19.4%	-23,264	-	\$30.17	\$23.89
Short Hills/Millburn	2,927,212	167,369	19,171	6.4%	-18,342	-	\$38.93	\$30.99
Suburban Essex/Rt. 280	10,781,600	1,087,788	15,107	10.2%	-46,722	-	\$26.85	\$23.34
Wayne/Paterson	5,897,971	870,339	0	14.8%	-8,892	32,000	\$24.79	\$20.12
Western Morris	3,021,436	1,291,738	0	42.8%	-118,698	-	\$25.68	\$20.47
Northern New Jersey Total	121,363,232	18,369,471	1,434,703	16.3%	-26,073	859,532	\$29.37	\$23.88
Brunswick/South Edison	13,184,964	2,219,380	132,365	17.8%	-168,707	-	\$28.50	\$23.75
Hunterdon Cluster	4,655,219	1,238,823	226,641	31.5%	46,543	-	\$21.70	\$18.91
Monmouth	11,451,968	1,109,743	63,842	10.2%	86,554	45,200	\$30.16	\$24.15
North Edison/Woodbridge	5,990,529	836,003	65,117	15.0%	39,547	-	\$31.48	\$21.62
Princeton North	2,141,942	244,760	39,799	13.3%	32,167	-	\$25.02	\$26.29
Princeton South	17,050,020	1,417,292	317,506	10.2%	-10,549	132,000	\$30.48	\$22.82
Route 22 West	5,250,174	398,937	536,128	17.8%	-280,187	68,000	\$26.93	\$20.22
Route 287	9,532,271	1,462,091	126,923	16.7%	62,088	-	\$20.75	\$18.05
Route 78 East	15,770,575	1,842,345	151,934	12.6%	2,240	-	\$28.62	\$22.67
Union	4,477,015	553,974	21,570	12.9%	50,789	-	\$28.46	\$23.33
Central New Jersey Total	89,504,677	11,323,348	1,681,825	14.5%	-139,515	245,200	\$28.03	\$22.94
New Jersey Overall Total	210,847,957	29,688,819	3,116,528	15.6%	-166,698	1,104,732	\$28.83	\$23.47

Numbers as of 4/4/18