

New Jersey



Quick Stats

4.0% ↓

New Jersey's unemployment rate (National rate 3.8%).

13.5% ↓

Overall vacancy rate.

\$27.50 ↑

Average Direct Asking Rent.

3.1 M ↑

12 month absorption (SF).

Vacancy Rates Drop, and Rents Continue to Rise

There was a 180-basis point drop in the vacancy rate since the first quarter of 2018, from 15.3 percent to 13.5 percent, while direct asking rents rose \$0.38 year-over-year to \$27.50. Net absorption was positive for the fourth straight quarter while leasing activity rose to 2.3 million square feet from 2.1 million square feet in the first quarter of 2018.

180 BPS
DROP IN VACANCY RATE
YEAR OVER YEAR

Office Market Spotlight - Parsippany - A once glorious market tries to regain its shine

If one were to ask a group of real estate professionals to describe the current state of the New Jersey office market, two themes would emerge: 1) a shift from suburban office campuses to urban and quasi-urban

transit hubs, and 2) a lack of updated quality space in the market. The Parsippany market is a microcosm of these two themes. Parsippany was once the go-to-market for large corporations due to its proximity to major highways such as Routes 80, 287, 46, 10, 202 and 53. The city's location provided great access for employees traveling from the surrounding suburbs.

Then there was a shift in the market demand. The sprawling single-tenant campuses of suburbia fell out of vogue, replaced with new amenity filled multi-tenanted properties closer to the urban market. The properties that once looked clean, fresh and awe-inspiring now fell rundown, stale and monolithic. The employee base began to prefer the exciting life of the city as opposed to the quiet lifestyle of suburbia, and mass transit became a requirement of successful cities and towns. These shifts in the market combined with the high cost of doing business in New Jersey has left the Parsippany market yearning for better days.

While the market dynamics have changed in Parsippany, there is still an opportunity for owners who are willing to reinvest in their assets and upgrade their properties to meet the current demands of the market. A recent example of this is 300 Kimball Drive, which was once owned and occupied by State Farm. In 2013 the insurance company decided to vacate 80.0 percent of the building and convert the property

into a multi-tenanted building. State Farm modernized the building and upgraded its fitness center, lobby, and café. In addition,

sustainability improvements earned it a LEED Silver Certification and the 2017 Building Owners and Managers Association's (BOMA) award of "The Most Outstanding Building of the Year". In March 2019, State Farm sold the property to Sovereign Partners for \$66 million, with 78.0 percent of the property leased. Other properties that have undergone recent renovations include 169 Lackawanna Avenue, 3 Sylvan Way, 5 Sylvan Way, 2 Gatehall and 4, 5 & 6 Century Drive. There are currently plans to renovate 10 Waterview Boulevard and 369-399 Interpace Parkway in the coming years.

As with the rest of the New Jersey office market, Parsippany has gone through some pain as the market dynamics have changed. Both the city and property owners will be compelled to make intelligent decisions to meet the demands and needs of the new age tenants.

\$66M

SALE PRICE OF
300 KIMBALL
DRIVE

Life sciences continue to play a large role in the New Jersey office market

One of the largest deals this past quarter was the Celularity lease of 170 Park Avenue in Florham Park. The Celgene spinoff resulted in the leasing of the entire Class A building which consists of three floors and 147,215 square feet. The biotech company has emerged as one of the biggest names in life sciences and Silicon Valley after it raised over \$250 million for its work in cancer treatment. Celularity specializes in research and therapies involving post-partum placentas to treat numerous diseases including certain blood cancers. The company is expected to grow over twenty-five percent over the next eighteen months.

Another pharmaceutical company that signed a large lease was Amarin. The Irish pharmaceutical company signed a 67,747 square foot lease at 440 Route 22 East in Bridgewater. The company's stock has risen over five hundred percent since September 2018 when it announced a favorable result from its first FDA-approved drug Vascepa. The drug has been shown to lower the risk of major cardiovascular events by twenty-five percent. Amarin is relocating from its headquarters at 1430 Route 206 in Bedminster.

Ricoh USA signs lease at 2 Gatehall, relocating from West Caldwell

Ricoh USA signed a 55,893 square foot lease at the newly renovated 2 Gatehall Drive in Parsippany. The electronics giant is relocating from West Caldwell and plans to house their back-office operations at 2 Gatehall. Ricoh is expected to move in during the third quarter of 2019.

LeFrak sells Newport Office Center IV

In one of the largest office sale transactions of the quarter, the LeFrak Organization sold 570 Washington Boulevard in Jersey City to iStar and iStar's affiliate, Safehold. iStar paid \$96.4 million for the building while Safehold paid \$68.4 million for the underlying land. Safehold subsequently gave iStar a 98-year ground lease on the property. The 350,000 square foot property is part of a 300- acre mixed-use development the LeFrak family has been working on since 1986, which was financed by a \$63.5 million CMBS loan from Bank of America.

Toys "R" Us former HQ sells

Last year, when toy retailing giant, Toys "R" Us declared bankruptcy, commercial real estate professionals around the state wondered what would happen to their corporate headquarters building in Wayne. This quarter we received a little more clarity as the 621,000 square foot complex had been sold to an unidentified purchaser. The property sits on about 191-acres and could be a great site for multiple purposes including multifamily, medical, educational or a concept similar to Bell Works in Holmdel. The market will be keeping a close eye on how the situation develops.

191 ACRES

LAND SIZE OF
FORMER TOYS 'R'
US HQ

Market Data Points

New Jersey

Indicator	Q1 19	Q1 18
Vacancy	13.5%	15.3%
Rent	\$27.50	\$27.12

Northern New Jersey

Indicator	Q1 19	Q1 18
Vacancy	14.7%	16.1%
Rent	\$28.16	\$27.72

Central New Jersey

Indicator	Q1 19	Q1 18
Vacancy	11.9%	14.1%
Rent	\$26.56	\$26.25

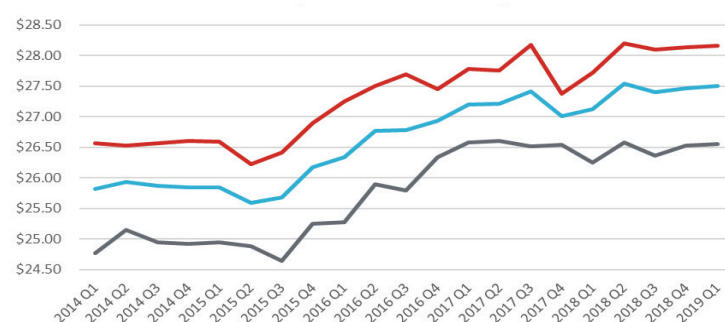
Select Office Sale Transactions

Building	Submarket/Market	Sale Price	Price PSF	Size (SF)
570 Washington Boulevard, Jersey City	Hudson Waterfront / Northern New Jersey	\$164,800,000 (\$96.4MM for the building & \$68.4MM for the land)	\$470.86	350,000
300 Kimball Drive, Parsippany	Parsippany / Northern New Jersey	\$66,000,000	\$164.94	400,147
1 Geoffrey Way, Wayne	Wayne / Patterson / Northern New Jersey	Undisclosed	Undisclosed	621,000

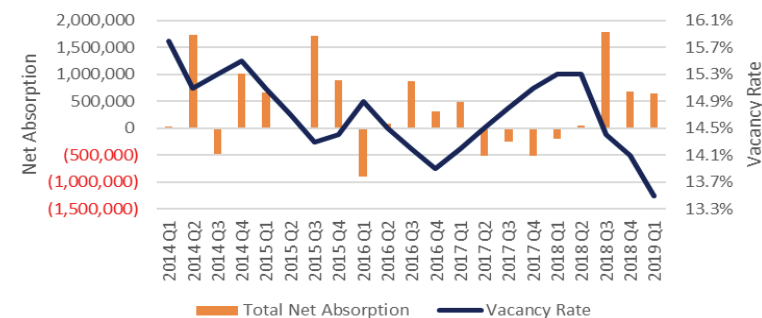
Select Office Lease Transactions

Tenant	Building	Submarket / Market	Type	Size (SF)
Celularity	170 Park Avenue, Florham Park	Morristown Region / Northern New Jersey	Direct	147,215
Amarin Corporation	440 Route 22 East, Bridgewater	Route 22 West / Central New Jersey	Direct	67,747
Ricoh USA	2 Gatehall Drive, Parsippany	Parsippany / Northern New Jersey	Direct	55,892

New Jersey Office Direct Asking Rent



New Jersey Office Total Net Absorption and Vacancy Rate



Trends to Watch



State incentives have been under attack by Governor Murphy but have been defended by State Senate President Sweeney. Developers and corporations alike will be keeping a close eye on how this develops.

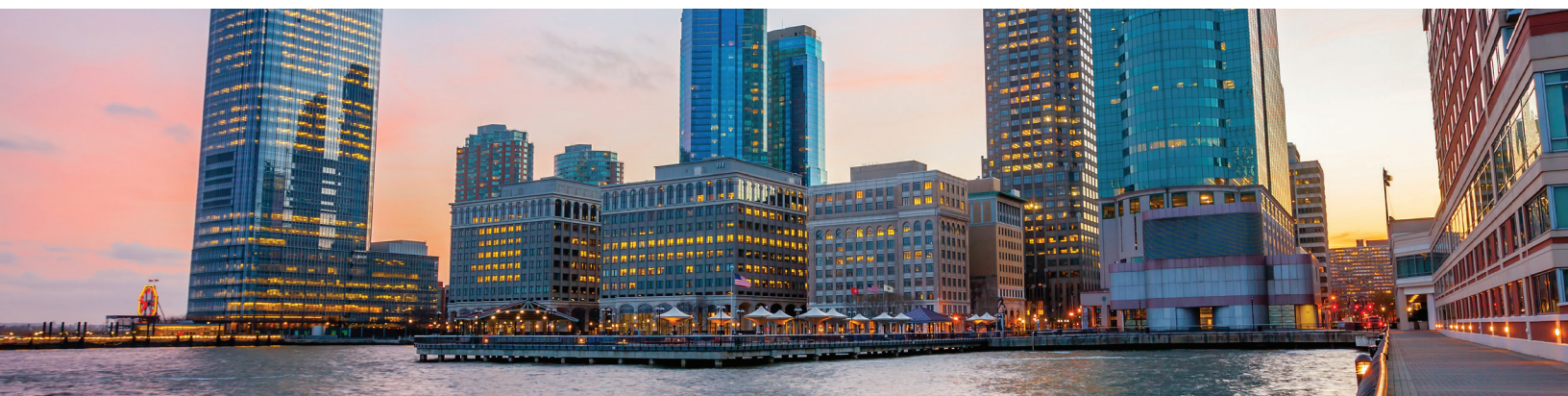


Vacancy rates to continue to drop as more obsolete office space gets repurposed.

Market By The Numbers

Submarket	Inventory (SF)	Direct Vacant (SF)	Sublet Vacant (SF)	Vacancy Rate (%)	Qtr Net Absorption	Current Under Construction (SF)	Direct Average Asking Rent Class A	Direct Average Asking Rent Class B
Bergen Central	6,753,435	793,307	65,960	12.7%	92,168	-	\$29.59	\$25.23
Bergen East	8,900,802	725,183	46,633	8.7%	(19,085)	360,000	\$32.20	\$27.23
Bergen North	9,160,448	785,164	55,066	9.2%	(40,670)	-	\$27.96	\$25.16
Hudson Waterfront	21,634,028	3,246,444	264,625	16.2%	(294,947)	125,000	\$37.54	\$30.48
Meadowlands	6,217,713	886,167	33,219	14.8%	(244,941)	340,000	\$28.57	\$22.19
Morristown Region	12,290,307	1,518,322	108,241	13.2%	44,924	-	\$30.88	\$24.16
Newark/ Urban Essex	18,107,658	2,561,022	84,633	14.6%	74,915	567,532	\$29.62	\$25.62
Northwest Frontier	353,408	22,238	0	6.3%	12,800	-	-	\$21.42
Parsippany	16,744,541	3,219,818	484,545	22.1%	68,575	-	\$30.61	\$23.35
Short Hills/ Millburn	2,927,183	89,049	72,027	5.5%	(18,326)	-	\$31.00	\$34.25
Suburban Essex/ Rt 280	10,961,031	988,024	38,171	9.4%	87,712	-	\$27.18	\$21.66
Wayne/ Paterson	5,916,364	653,899	7,292	11.2%	189,441	-	\$22.99	\$22.23
Western Morris	3,102,733	1,299,959	12,356	42.3%	1,662	-	\$25.89	\$19.66
Northern New Jersey	123,069,651	16,788,596	1,272,768	14.7%	(45,772)	1,392,532	\$29.60	\$24.30
Brunswick/South Edison	12,872,369	1,954,387	55,261	15.6%	31,481	60,000	\$28.60	\$23.93
Hunterdon Cluster	4,651,219	235,982	249,485	10.4%	(12,952)	-	\$21.33	\$16.47
Monmouth	11,391,478	735,117	104,980	7.4%	340,386	68,112	\$30.15	\$24.65
North Edison/ Woodbridge	6,224,903	829,278	45,438	14.1%	(13,490)	-	\$33.23	\$22.87
Princeton North	1,988,533	319,653	39,799	18.1%	(3,275)	-	\$43.15	\$23.82
Princeton South	17,198,238	1,472,915	399,422	10.9%	178,241	97,405	\$29.83	\$22.49
Route 22 West	5,330,360	265,451	466,409	13.7%	14,103	-	\$26.89	\$20.84
Route 287	9,531,389	1,165,614	134,755	13.6%	(3,202)	-	\$21.33	\$18.96
Route 78 East	16,054,133	1,606,195	105,494	10.7%	85,639	-	\$28.93	\$20.80
Union	4,447,478	449,619	9,918	10.3%	94,747	-	\$29.24	\$21.66
Central NJ	89,690,100	9,034,211	1,610,961	11.9%	711,678	225,517	\$28.57	\$22.68
New Jersey	213,045,751	25,875,409	2,883,729	13.5%	643,906	1,618,049	\$29.20	\$23.54


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Economy - New Jersey takes significant steps in improving the lives of employees

As of February 2019, New Jersey's seasonally adjusted unemployment rate held at 4.0 percent for the second straight month, while dropping 50 basis points year-over-year. New Jersey remains 20 basis points above the 3.8 percent national unemployment rate.

The first quarter of 2019 saw sufficient changes to labor laws as Governor Murphy tries to follow through on some of his campaign promises. A few of these legislative milestones include a new paid sick leave law, an updated paid family leave act and an increase to the minimum wage.

In October of 2018, New Jersey became the tenth state in the country to require employers to provide employees with paid sick leave. The program allows employees to earn hours of paid sick leave based on the number of hours they work. Employees began earning hours in October but were only able to use their accrued paid sick leave starting February 26, 2019. Under the new law, employees can use their paid sick time to care for either themselves or family members.

On February 19th Governor Murphy signed into law an expanded paid family leave program. The new rule expanded on the family leave law that was enacted in 2009, which at the time was the second in the nation to be put in place. The updated law will increase the eligibility period from six to twelve weeks and increase the reimbursement cap from \$633 to \$859 per week. The law will also provide job protection to employees of businesses with at least thirty employees, down from fifty. The increased benefit will go into effect in July 2020. The new

legislation is designed to allow more middle and lower-class employees to stay home and bond with their new children or take care of a sick loved one, but it comes at a cost to the taxpayers. The updated family leave program will be financed by adjusting the formula every worker contributes from being taxed only on the first \$34,400 in wages (with a maximum of \$27.52 per year) to the first \$131,000 in wages.

In 2017, while campaigning as a candidate to be the next Governor of New Jersey, Governor Murphy proposed numerous legislative initiatives including a state bank, legalizing marijuana and raising the minimum wage. While the Governor is still working to create a state bank and legalize marijuana, he was able to sign into law a minimum wage increase to begin July 1, 2019. The new law will raise the minimum wage for most workers to \$10.00 per hour on July 1st and then again to \$11.00 January 1, 2020, with one dollar increases every January 1st until it reaches \$15.00 per hour in 2024. There are exceptions to the new law for seasonal, tipped, farm and small business (less than six people) employees.

These initiatives have been widely celebrated by labor advocates, who hope that this is just the beginning of equalizing the playing field for lower and middle-class workers in the state. Small business owners have been less enthusiastic about these changes, out of fear of what this might do to their bottom line. The long-term effects of these changes remain to be seen.