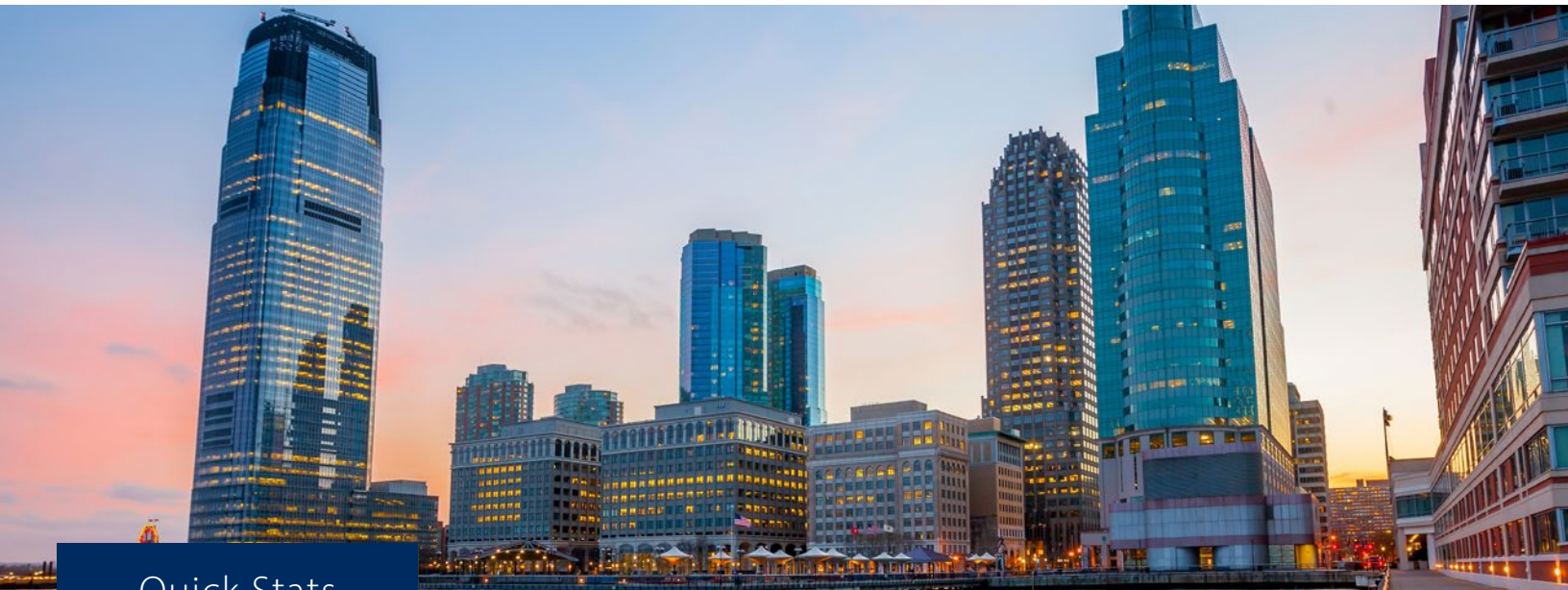


# New Jersey



## Quick Stats

10.9% ↑

New Jersey's unemployment rate\*\* (National rate 7.9%\*).

12.9% ↓

Overall vacancy rate.

\$30.70 ↑

Average Market Rent.

1.4 M ↓

12 month absorption (SF).

\*August 2020  
\*\*September 2020

### Vacancy Rates on the rise

Vacancy rates have risen 60-basis points since the first quarter of this year to 12.9 percent. Market rents rose \$.19 year over year to \$30.70/SF. Historically real estate usually trails the economy in a time of recession and we are starting to see a slowdown with net absorption being negative this quarter. As offices begin to reopen, it remains to be seen if this is the beginning of a downward trend or just a bump in the road.

### Japanese pharmaceutical company makes a big splash in Nutley

In one of the largest deals of the quarter, Eisai Inc. signed a 306,471 square foot lease at Prism Capital Partners' 200 Metro Boulevard in Nutley. The Japanese pharmaceutical company, which focuses on oncology and neurology, will be taking all fifteen floors of the property and expects to transfer up to 1,200 R&D and corporate jobs by the end of 2021. Eisai will be leaving their

**306,471 sf**  
SIZE OF EISAI INC.'S LEASE  
AT 200 METRO BLVD

current headquarters at 100 Tice Boulevard in Woodcliff Lake, to join Modern Meadow, Ralph Lauren Corp., and Quest Diagnostics as well as Hackensack Meridian Health Center for Discovery and Innovation, the Hackensack-Meridian School of Medicine at Seton Hall University, and Seton Hall's Graduate College of Nursing and School of Health and Medical Sciences at the redeveloped former Roche Pharmaceutical site.

### 30 Hudson Street announces two big deals

As part of a chain of recent real estate transactions in both New York and New Jersey, AIG agreed to lease 226,852 square feet of space at the Goldman Sachs building in Jersey City. The 42-story building was opened in 2004, and is located at 30 Hudson Street, overlooking the Hudson River. The insurance company also announced that they would be moving their headquarters to 1271 Avenue of the Americas in Manhattan.

AIG's lease comes as Merck & Co's spinoff, Organon & Co. announced that they will also

occupy 110,000 square feet for its headquarters at 30 Hudson Street. The new company is anticipated to have a public offering next year and will be comprised of Merck's women's health, legacy products, and biosimilars businesses. The lease is expected to be signed in the first half of 2021 by WeWork, who will be managing the space, but will have Merck serve as the guarantor.

### BNP Paribas renews in Jersey City while reducing their space in NYC

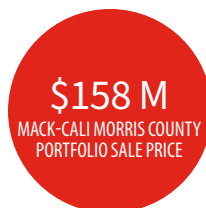
BNP Paribas signed a 20-year renewal for their space at the Newport Tower in Jersey City. The French Bank decided to keep its 152,488 square-foot presence in Jersey City while reducing its footprint at 787 Seventh Avenue in New York City. BNP's renewal comes at a time when ownership has begun a \$10 million renovation at 525 Washington Boulevard as part of their overall ESG strategy throughout their company.

### Opal Holdings makes another purchase, this one in Metro Park

Opal Holdings has kept its foot on the pedal and has made it three for three in 2020. The New York City-based investment firm acquired 194 Wood Avenue South in Iselin for \$140 million (\$297.43/SF), making it their third large purchase in as many quarters for Opal. The 470,692 square foot property was purchased from AIG who acquired it in 2017. The property is anchored by IBM who occupies 153,394 SF.

### Mack-Cali continues to divest its suburban portfolio

A joint venture between Onyx Equities, Taconic Capital Advisors LP, Axonic Capital LLC, and Machine Investment Group purchased a ten-property Morris County portfolio from Mack-Cali Realty Corp. The portfolio included nine properties in Parsippany (1, 3, 5, and 7 Sylvan Way; 4, 6 and 8 Campus Drive; 2 Dryden Way and 2 Hilton Court) and one in Madison (1 Giralda Farms) and totals 1,448,420 square feet. The total sale price was \$158 million (\$109.08/SF) and was financed by a \$147.72 million loan from Ares Management Corp. This sale by Mack-Cali is part of their strategy to divest their suburban office holdings and focus on their Waterfront assets in Jersey City. The new ownership group plans on making a series of capital improvements in the hopes of capturing tenants that are looking to relocate or expand from New York City.



### New York Life sells the Offices at Bedminster

Northeast Capital Group purchased the Offices at Bedminster

this quarter for \$32.75 million (\$168.90/ SF). The New York-based investor purchased the two-building campus from New York Life, who purchased it in 2007 for \$43.7 million. The complex which consists of 500 and 550 Hills Drive in Bedminster is 193,900 square feet and is almost 16 acres.

### Office Issue Spotlight - Working From Home brings some tax topics to the forefront

Covid-19 has led to many changes in the way companies and employees do business with a significant number of companies' employees able to sufficiently work from home, many are reevaluating the location and footprint of their offices. The pandemic has accelerated many trends, among them the discussion of two tax topics: The tax deduction for the home office and the "Employer Convenience Rule".

Under the IRS's Publication 587, a taxpayer may deduct expenses for the use of their home office. To take advantage of this deduction, the office must meet these two factors: 1. The location is used for the sole and exclusive use of your business 2. The location is a principal place of your business. Generally, the taxpayer would deduct the percentage of the home that is used for the business. (To view the full publication please click [here](#))

With many people working from their home offices throughout the pandemic, there might be a slew of people looking to take advantage of this deduction come tax time. For most of those people, they will be disappointed to learn that as a result of the 2017 tax overhaul, the deduction by employees for home office use was removed.

As a result of so many employees working from home, as well as plans by many companies to allow for more employees to work remotely even after the pandemic, there has been a push to make adjustments to the tax code to reflect the new business environment. Proponents of the change have argued that the "sole and exclusive use of your business" factor is an extremely high barrier to meet and unfairly discriminates against the less wealthy and apartment dwellers who cannot set aside a portion of their residence for the exclusive use of their business. A second argument for change has been the shifting of the cost of office supplies, electricity to power computers, and HVAC systems from closed offices to employees working from home. This is in addition to additional "wear and tear" people have put on their homes as a result of the shift to work from home.

While a change to the tax code does not seem imminent, as the dust settles and the world moves past Covid-19, that tax code will

hopefully adjust to meet the new realities of the work environment.

A second tax concept that is getting additional scrutiny is the “Employer Convenience Rule”. This rule states that if a person has a job that is based in one state, but lives and works in another state out of convenience and not because the employer requires it, they will owe income taxes to the state where their office is. Since, in general, states tax income for work done in their state, taxpayers are at risk for being double-taxed if their home state does not give a tax credit.

New Jersey residents who work in New York, in general under Section 601 (e) of the New York State Tax Law pay income taxes to New York for the portion that they work in New York. The basic formula is the total number of “working days” in New York divided by total “working days” both within and out of New York. A caveat to the rule is that the days worked out of New York need to be out of necessity or for convenience of the employer and not the employee. For a “workday” to count as out of New York the employee must be working at a bona fide employer office.

As a result of Covid-19, many New Jersey residents who work in New York are now working from home. This brings up the question if they will need to pay taxes to New York while working in the home office. After many years of confusion and inconsistent rulings by the New York State Courts, in 2006 the New York State Departments of Taxation and Finance issued a Technical Service Bureau Memorandum (TSB-M-06(5)i) clarifying the rules on the application of the “Convenience of the Employer Test”. The Memorandum outlines a series of factors that must be met to for a home office to be considered a “bona fide employer office”.

For a home office to be considered a “bona fide employer office” it must either meet:

- a) The primary factor OR
- b) At least 4 secondary factors AND 3 other factors

The Primary Factor is:

- a. The home office contains or is near specialized facilities

Secondary Factors are:

- a. The home office is a requirement or condition of employment.
- b. The employer has a bona fide business purpose for the employee’s home-office location.
- c. The employee performs some of the core duties of his or her employment at the home office
- d. The employee meets or deals with clients, patients, or customers on a regular and continuous basis at the home

office.

- e. The employer does not provide the employee with designated office space or other regular work accommodations at one of its regular places of business.
- f. Employer reimbursement of expenses for the home office.

Other factors are:

- a. The employer maintains a separate telephone line and listing for the home office.
- b. The employee’s home office address and phone number are listed on the business letterhead and/or business cards of the employer.
- c. The employee uses a specific area of the home exclusively to conduct the business of the employer that is separate from the living area. The home office will not meet this factor if the area is used for both business and personal purposes.
- d. The employer’s business is selling products at wholesale or and the employee keeps an inventory of the products or product samples in the home office for use in the employer’s business.
- e. Business records of the employer are stored at the employee’s home office.
- f. The home office location has a sign indicating a place of business of the employer.
- g. Advertising for the employer shows the employee’s home office as one of the employer’s places of business.
- h. The home office is covered by a business insurance policy or by a business rider to the employee’s homeowner insurance policy.
- i. The employee is entitled to and actually claims a deduction for home office expenses for federal income tax purposes.
- j. The employee is not an officer of the company.

For the full text of New York State Departments of Taxation and Finance issued a Technical Service Bureau Memorandum (TSB-M-06(5)i) please click [here](#).

As is evident from the Memorandum, the hurdle to classify a home office as a “bona fide employer office” is quite high.

With the (potentially) permanent shift to telecommuting for some employees, New Jersey stands to lose billions of dollars in tax revenue as they provide a tax credit to their residents whose income is being taxed by other states. One of the biggest proponents of change is

Senator Steven Oroho, who is the Senate Republican Budget Officer, and represents the 24th legislative district in the state senate. In a recent opinion article, Mr. Oroho outlines why it is so important for New Jersey to change these tax policies.

The challenge in creating a change is that New York has no incentive to make changes to its tax code, and recent efforts on the federal level have yet to be successful. Current federal law requires state tax cases to be contested in state courts. Even change via the federal court system has been unsuccessful as the Supreme Court has so far refused to grant certiorari.

There is no guarantee that New Jersey will continue to provide a tax credit for taxes paid in other states, as the state's coffers took a significant hit due to the pandemic. As New York-based companies assess their options as a result of the pandemic, deciding if they

should maintain an office in New York and/or implement a "hub and spoke model", the tax effect on their employees should be included in the decision making process.

Covid-19 has created havoc in the way business is being done. With these changes, pain points are being exposed in businesses and governmental policies. These two tax topics are just a few that are now being reevaluated as the world adjusts to a post-COVID world.

**Disclaimer:** Please contact your tax professional before making any tax planning decisions.



## Market Data Points

### New Jersey

| Indicator | Q3 20   | Q3 19   |
|-----------|---------|---------|
| Vacancy   | 12.9%   | 13.1%   |
| Rent      | \$30.70 | \$30.51 |

### Northern New Jersey

| Indicator | Q3 20   | Q3 19   |
|-----------|---------|---------|
| Vacancy   | 13.7%   | 14.5%   |
| Rent      | \$31.87 | \$31.78 |

### Central New Jersey

| Indicator | Q3 20   | Q3 19   |
|-----------|---------|---------|
| Vacancy   | 11.7%   | 11.2%   |
| Rent      | \$29.09 | \$28.78 |

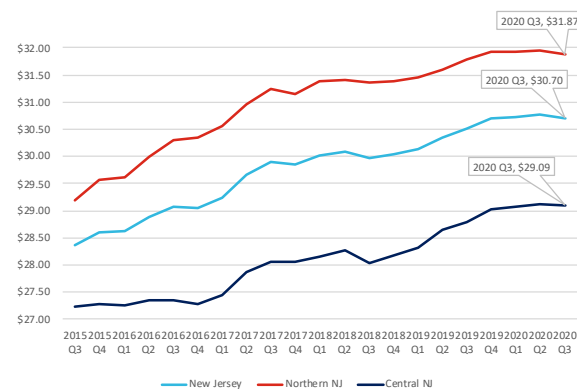
## Select Office Sale Transactions

| Building   | Submarket/Market                            | Seller        | Buyer             | Sale Price    | Price PSF | Size (SF) |
|--|---|---------------|-------------------|---------------|-----------|-----------|
| 194 Wood Ave South, Iselin                           | North Edison/ Woodbridge/Central New Jersey | AIG           | Opal Holdings     | \$140,000,000 | \$297.43  | 470,692   |
| Mack-Cali Morris Couty Portfolio (10 Properties)     | Northern New Jersey                         | Mack-Cali     | Onyx Equities     | \$158,000,000 | \$109.08  | 1,448,420 |
| The Offices at Bedminster, Bedminster (2 Properties) | Rt 78 East/Central New Jersey               | New York Life | Northeast Capital | \$32,750,000  | \$168.90  | 193,900   |

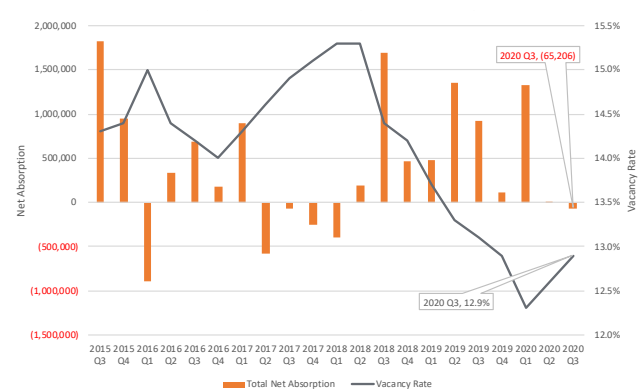
## Select Office Lease Transactions

| Tenant      | Building                              | Submarket / Market                        | Type    | Size (SF) |
|-------------|---------------------------------------|---|---------|-----------|
| Eisai, Inc. | 200 Metro Boulevard, Nutley           | Newark/ Urban Essex / Northern New Jersey | Direct  | 306,471   |
| AIG         | 30 Hudson Street, Jersey City         | Hudson Waterfront / Northern New Jersey   | Direct  | 227,852   |
| BNP         | 525 Washington Boulevard, Jersey City | Hudson Waterfront / Northern New Jersey   | Renewal | 152,448   |

## New Jersey Office Market Rent



## New Jersey Office Total Net Absorption and Vacancy Rate



## Trends to Watch



Companies are looking for more flexible office space that can quickly convert, as they develop long-term work from home strategies.



As some companies leave New York City, will they skip over New Jersey to more tax-friendly southern states?

## Market By The Numbers

| Submarket                | Inventory (SF) | Direct Vacant (SF) | Sublet Vacant (SF) | Vacancy Rate (%) | Q3 20 Net Absorption | YTD Net Absorption | Current Under Construction (SF) | Market Rent Class A | Market Rent Class B |
|--------------------------|----------------|--------------------|--------------------|------------------|----------------------|--------------------|---------------------------------|---------------------|---------------------|
| Bergen Central           | 6,913,777      | 897,459            | 95,614             | 14.4%            | (43,222)             | (57,520)           | -                               | \$34.91             | \$25.76             |
| Bergen East              | 9,698,033      | 868,947            | 87,341             | 9.9%             | 253,886              | 242,390            | 51,750                          | \$34.60             | \$25.15             |
| Bergen North             | 9,140,982      | 962,594            | 43,599             | 11.0%            | (121,346)            | (35,164)           | 52,000                          | \$35.13             | \$27.14             |
| Hudson Waterfront        | 21,415,423     | 2,469,518          | 303,177            | 12.9%            | (224,177)            | 117,769            | 245,997                         | \$42.35             | \$35.30             |
| Meadowlands              | 6,200,372      | 795,052            | 43,731             | 13.5%            | 102,835              | 47,585             | 250,000                         | \$35.19             | \$27.94             |
| Morristown Region        | 11,045,561     | 1,324,345          | 160,637            | 13.4%            | (27,346)             | (42,909)           | -                               | \$33.04             | \$27.50             |
| Newark/ Urban Essex      | 18,369,380     | 2,047,542          | 29,963             | 11.3%            | 225,061              | 371,872            | 125,000                         | \$31.43             | \$27.49             |
| Northwest Frontier       | 322,495        | 15,308             | 0                  | 4.7%             | 1,881                | (1,989)            | -                               | -                   | \$22.70             |
| Parsippany               | 16,520,556     | 3,113,849          | 310,525            | 20.7%            | 99,139               | 324,844            | -                               | \$29.17             | \$23.44             |
| Short Hills/ Millburn    | 3,528,573      | 181,573            | 75,739             | 7.3%             | 40,791               | (121,995)          | -                               | \$37.52             | \$30.12             |
| Suburban Essex/ Rt 280   | 11,039,526     | 1,011,435          | 187,780            | 10.9%            | 29,216               | (147,874)          | -                               | \$26.40             | \$23.93             |
| Wayne/ Paterson          | 6,379,437      | 619,600            | 13,000             | 9.9%             | (32,404)             | 148,818            | 34,407                          | \$33.74             | \$30.12             |
| Western Morris           | 3,102,039      | 1,292,647          | 0                  | 41.7%            | 10,851               | 23,951             | -                               | \$26.16             | \$21.84             |
| Northern New Jersey      | 123,676,154    | 15,599,869         | 1,351,106          | 13.7%            | 315,165              | 869,778            | 759,154                         | \$34.24             | \$26.84             |
| Brunswick/South Edison   | 13,054,364     | 1,546,311          | 90,991             | 12.5%            | (29,992)             | 207,052            | 40,000                          | \$33.49             | \$26.45             |
| Hunterdon Cluster        | 4,642,744      | 348,569            | 118,319            | 10.1%            | (97,779)             | (85,535)           | -                               | \$26.85             | \$23.15             |
| Monmouth                 | 11,640,057     | 997,260            | 103,881            | 9.5%             | (95,854)             | (11,280)           | 25,500                          | \$34.32             | \$26.32             |
| North Edison/ Woodbridge | 6,266,937      | 766,880            | 99,532             | 13.8%            | (90,288)             | 34,685             | -                               | \$38.56             | \$26.86             |
| Princeton North          | 2,010,054      | 294,380            | 39,799             | 16.6%            | (9,103)              | (2,640)            | -                               | \$28.18             | \$26.33             |
| Princeton South          | 17,969,122     | 1,292,573          | 235,064            | 8.5%             | 89,417               | (123,286)          | -                               | \$33.03             | \$25.80             |
| Route 22 West            | 5,161,284      | 320,378            | 428,450            | 14.5%            | 54,133               | (2,709)            | -                               | \$27.46             | \$22.04             |
| Route 287                | 9,472,155      | 1,315,791          | 55,548             | 14.5%            | (61,893)             | (64,407)           | -                               | \$23.29             | \$22.50             |
| Route 78 East            | 16,023,458     | 1,841,657          | 263,710            | 13.1%            | (100,399)            | 456,886            | -                               | \$28.83             | \$24.90             |
| Union                    | 4,487,031      | 442,441            | 24,263             | 0                | -38,613              | -5,999             | 205,111                         | \$25.14             | \$23.44             |
| Central NJ               | 90,727,206     | 9,166,240          | 1,459,557          | 11.7%            | (380,371)            | 402,767            | 270,611                         | \$25.14             | \$25.01             |
| New Jersey               | 214,403,360    | 24,766,109         | 2,810,663          | 0                | -65,206              | 1,272,545          | 1,029,765                       | \$32.95             | \$26.05             |

# New Jersey Economy



## The unemployment rate drop seems to indicate a path to recovery

As of August 2020, New Jersey's seasonally adjusted unemployment rate was 10.9 percent. This is a significant improvement from the unemployment rate in April of 16.3 percent when the pandemic-induced unemployment was at its highest. New Jersey has regained about 49.0 percent of the jobs lost in the four months since April.

The New Jersey unemployment rate remains 300 basis points higher than the national unemployment rate of 7.9 percent (September 2020), which has come down from its high in April of 14.7 percent.

## Governor Murphy finally gets his "Millionaire tax", as corporate surtax gets extended

In April of this year, New Jersey made the unique decision to push its fiscal year-end date from June 30th to September 30th. This move was made in part to allow the governor and the legislature to assess the fiscal damage of the pandemic. As a result of this extension, the 2021 fiscal budget was recently released and passed by the Democratic-controlled legislature.

The budget is set at \$32.7 billion for the nine months from October 2020 until June 2021. (Bubble: \$32.7 Billion- NJ Budget for Oct. 2020- June 2021) The budget also calls for a \$2.5 billion reserve, put in place in the event there is another Covid-19 outbreak. The approved budget also includes a \$4.5 billion borrowing plan, to add to the current \$44.4 billion in



outstanding bonds, which places New Jersey with the highest debt per capita in the country.

Two of the highlights of the budget are the new "Millionaire tax" and extension of the 2.5 percent surcharge on corporate taxes for businesses with over \$1 million in profit.

The 2.5 percent surtax was added in 2018, raising the corporate tax rate on profits over \$1 million to 11.5%. The surcharge was in the middle of its wind-down period where the rate was reduced to 1.5 percent, until December 31, 2021, when it was scheduled to expire. The new budget deal extends the scheduled sunset to December 2023.

The "Millionaire tax" is something that Governor Murphy has been trying to get restored since he took office. The new tax will increase the tax rate on gross income between \$1 million and \$5 million to 10.75% (the rate on \$5 million-plus) from 8.97%. In a corresponding action, the budget calls for a \$500 tax rebate to all two-parent households that have less than \$150,000 in gross income, and at least one dependent child (and a \$75,000 gross income cap on the single-parent household). The rebates are expected to be sent out in the summer of 2021. When asked, Governor Murphy had stated that he plans on keeping both the "Millionaire Tax" and \$500 tax rebate beyond this year.



Opponents of these two measures have said this is the wrong time, as the state looks to attract new companies and their executives, as well as retain its current ones. Only time will tell if this was the right decision as the state prepares for the financial repercussions of Covid-19 and beyond.