

New Jersey

Market Facts

5.1% ↑New Jersey's unemployment rate
(national rate 4.1%)**15.2%** ↑

Overall vacancy rate

\$27.06 ↑

Average direct asking rent

209,000 ↓

12-month absorption (SF)

Economy

Private sector employment in New Jersey has reached a historic high. However, a loss of 3,500 jobs in the public sector has caused the overall unemployment rate to rise for the fifth straight month to 5.1 percent in November. The state's unemployment rate is now 100 basis points above the national rate of 4.1 percent.

The private sector gained 6,300 jobs this past month and has gained 45,400 jobs since November of 2016. Conversely, the public sector lost 3,500 jobs over the past year but made a modest gain of 100 jobs this past month. Over the past year, the only private sectors to suffer job losses were the information and professional and business services sectors.

New Jersey has strong employment numbers with the unemployment rate solidly in the four and five percent range during the past two years. Looking forward to 2018 and beyond, there are several factors that could have a substantial effect on the overall employment market. The first is the tax reform recently passed by Congress. The negative news for New Jersey is the elimination of the deduction for local taxes. However, the reduction of the corporate tax rates and a modification in how pass-through entities are taxed are seen as positive for New Jersey. The second and, perhaps, more important factor is the legislative agenda of the newly elected governor, Phil Murphy. Murphy's campaign promises included legalizing marijuana, instituting a millionaire's tax, raising the minimum wage and reducing tax breaks for corporations. With the exception of the legalization of marijuana, which could result in some benefit to New Jersey, most of the remaining ideas floated by Murphy may negatively impact the state. These changes will have an impact, but how large of an impact these changes will have on the local workforce and the companies that employ them cannot be anticipated at this time.

Office Leasing

The New Jersey office market did not see many large deals this quarter. One of the largest direct lease deals was Kumon's 57,783-square-foot lease at 55 Challenger Road in Ridgefield Park. The education company is moving from its US headquarters at 300 Frank W. Burr Boulevard in Teaneck. Kumon made the decision to make the two-mile move in part due to the improved rental rates and enhanced exposure to both I-95 and Route 46. Due to the short distance of the move, Kumon intends to maintain their current workforce, hoping to create a seamless transition into their new space.

Another one of the larger lease deals this quarter was the Universal Technical Institute (UTI) taking 53,467 square feet of office space at 1515 Broad Street in Bloomfield. In conjunction with the office transaction, UTI took 46,500 square feet of flex space adjacent to 1515 Broad Street.

The technical school is planning to build offices, classrooms, and labs in the two buildings. This deal allows the Scottsdale, Arizona based company to expand its presence into New Jersey.

Overall the New Jersey office market saw a decline in leasing activity during the fourth quarter of 2017, with 1.5 million square feet of completed leases, compared to 3.3 million square feet leased during the same period last year. This decline in leasing activity may be the result of uncertainty in recent tax reform and changes in New Jersey political leadership. This trend appears to have affected both the northern and central part of the state equally. In the northern New Jersey market, leasing activity dropped by approximately one million square feet to 717,000 in the fourth quarter of 2017 as compared to 1.7 million square feet last year during the same period. The central New Jersey market experienced a similar drop in leasing activity from 1.6 million square feet during the fourth quarter of last year to 796,000 square feet in the fourth quarter of this year.

Vacancy and Rents

While there was positive net absorption during the fourth quarter of 2017, the 12-month net absorption is approximately 209,000 square feet of positive absorption. The positive net absorption in the fourth quarter was driven by the sublease market as opposed to the direct market. Some of the larger spaces to enter the direct space marketplace including 260,000 square feet at 800 Sylvan Avenue in Englewood Cliffs, 188,477 square feet at 3 2nd Avenue in Jersey City and 141,000 square feet at 3 Giralda Farms in Madison.

The overall vacancy rate rose to 15.2 percent compared to 14.5 percent during the fourth quarter of 2016. Average direct asking rents rose to \$27.06 this quarter from \$26.93 last year during this same period, with the central New Jersey market providing much of the firepower, rising 34 cents over the past year to \$26.76.

Investment Sales

According to Real Capital Analytics, \$456.5 million worth of office sale transactions were completed during the fourth quarter of 2017. This represented a drop from the \$945.5 million in sale transactions in the fourth quarter of 2016.

One of the largest property sale transactions of the quarter was the purchase of one of the two office condo portions at 1 Newark Center in Newark. The condo portion purchased by the Beijing Ideal Group, a Chinese investment and development company, includes floors six through 22 (423,028 square feet) of the Class A office building. The lower condo portion will still be owned and occupied by Seton Hall Law School. The previous owners were Mack-Cali and The Praedium Group, who purchased the property in 2006.

Another large deal that closed this quarter was P3 Properties' purchase of Morris Corporate Center III (400 Interpace Parkway, Parsippany) from J.P. Morgan Asset Management. The four property, 541,466-square-foot campus is located at the intersection of Routes 80 and 287 sites on 27 acres of land. The property is currently home to numerous global tenants including Teva Pharmaceuticals and Ogilvy CommonHealth Worldwide.

Market Spotlight Englewood Cliffs

Englewood Cliffs has been identified as the "Trillion Dollar Mile" due to the high density of major companies along Sylvan Avenue, the city's main thoroughfare. These companies include CNBC, Unilever, LG Electronics, Whole Foods and IBM. The market's popularity among major companies is due to its proximity both to New York City and numerous affluent communities. Historically communities such as Englewood, Alpine, Demarest, and Tenafly have been home to many executives from companies that have maintained a large presence in the Englewood Cliffs market. While the market is not located in a transit hub as many of the other successful markets in New Jersey are, its proximity to the George Washington Bridge and a system of bus lines has allowed for easy commuting for employees both in and out of New Jersey.

Historically Englewood Cliffs' sub-market has had a relatively low vacancy rate ranging between 5.0 and 7.0 percent over the past 10 years. During the fourth quarter, the vacancy rate shot up, as over 260,000 square feet of the redeveloped Unilever Building began to be marketed. The building was sold in a partial sale-leaseback by Unilever in 2016 to a joint venture between OVG Real Estate Partners and Normandy Real Estate Partners. Many real estate professionals in the area are expecting a flight to quality among many of the current Class A and B tenants, creating a void in many of the other quality buildings in the market. The market will keep a close eye on how tenants currently in Class B and C buildings will respond to the expected movement at the top of the market.

Earlier this year, LG Electronics finally broke ground on its new North American Headquarters at 111 Sylvan Avenue. The company spent over seven years battling environmental groups over the height of the building. The building is expected to cost over \$300 million and is scheduled to be

occupied by LG in late 2019. LG's move to their new 350,000-square-foot building will create another void in the market as they vacate their current location at 1000 Sylvan Avenue.

Looking ahead, the Englewood Cliffs sub-market will continue to attract large tenants due to its superb location. Landlords and tenants alike will be focused on how rental rates are affected by the highest vacancy rate the Englewood Cliffs sub-market has seen.

Market Data Points

New Jersey

Indicator	4Q17	4Q16
Vacancy	15.2%	14.5%
Rent	\$27.06	\$26.93

Northern New Jersey

Indicator	4Q17	4Q16
Vacancy	16.0%	15.6%
Rent	\$27.30	\$27.37

Central New Jersey

Indicator	4Q17	4Q16
Vacancy	14.2%	13.0%
Rent	\$26.76	\$26.42

Select Sale Transactions

Building	Submarket/Market	Sale Price	Price PSF	Size (SF)
101 COLUMBIA TURNPIKE, MORRISTOWN (FORMER HONEYWELL CAMPUS)	MORRISTOWN REGION / NORTHERN NEW JERSEY	\$19,500,000	\$16.55	1,200,000 To be developed
1 NEWARK CENTER, NEWARK	NEWARK URBAN ESSEX / NORTHERN NEW JERSEY	\$93,900,000	\$221.97	423,028 Floors 6 - 22
400 INTERPACE PARKWAY, PARSIPPANY (FOUR BUILDING PORTFOLIO)	NORTH EDISON-WOODBRIDGE / CENTRAL NEW JERSEY	\$60,000,000	\$110.81	541,466

Select Lease Transactions

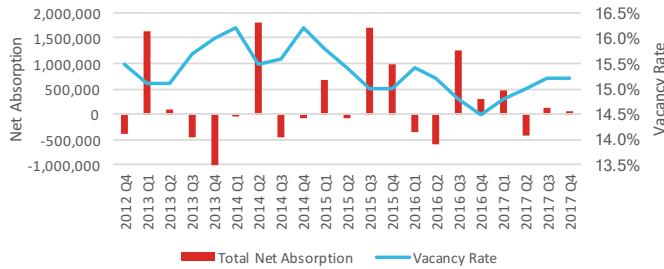
Tenant	Building	Submarket/Market	Type	Size (SF)
ALTICE USA	30 KNIGHTSBRIDGE ROAD, PISCATAWAY	ROUTE 287 / CENTRAL NEW JERSEY	RENEWAL	64,125
KUMON	55 CHALLENGER ROAD, RIDGEFIELD PARK	BERGEN EAST / NORTHERN NEW JERSEY	DIRECT	57,783
UNIVERSAL TECHNICAL INSTITUTE, INC.	1515 BROAD STREET, BLOOMFIELD	NEWARK URBAN ESSEX / NORTHERN NEW JERSEY	DIRECT	55,467

Trends to Watch

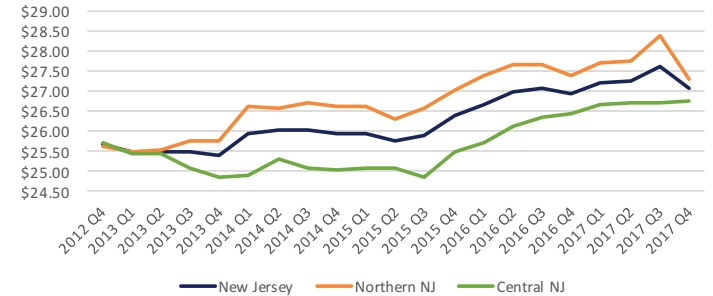
- In the wake of recent tax reform, the initial reaction has been very positive for the real estate industry as there were changes made to the depreciation timetable, as well as the tax rate on the income that is passed through to REIT investors and preservation of the "1031 exchange" provision. Moving forward, we will be watching to see if initial perceptions regarding the tax reform hold true and how owners and investors react as a result of the changes.
- The effect of Governor-elect Murphy's legislative agenda on the office market. A few of the campaign promises that Phil Murphy made while on the campaign trail include: instituting a millionaire's tax, raising the minimum wage and reducing tax breaks for corporations. If some or all of these items go into effect, companies and their executives may be forced to reassess the business and wealth retention plans for the future.

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)	4th Quarter 2017 Overall Vacancy Rate	4th Quarter 2017 Net Absorption (SF)	Year-To-Date Absorption	Current Under Construction (SF)	Overall Average Asking Rent Class A	Overall Average Asking Rent Class B
Bergen Central	6,707,110	1,006,432	96,749	16.4%	-137,538	-75,327	-	\$29.38	\$24.27
Bergen East	8,600,065	1,114,033	60,417	13.7%	-227,147	-190,820	360,000	\$29.25	\$26.85
Bergen North	9,252,182	1,131,688	58,436	12.9%	150,513	-102,011	-	\$29.76	\$24.32
Hudson Waterfront	21,352,131	2,024,353	567,724	12.1%	-169,117	107,445	-	\$38.91	\$30.95
Meadowlands	6,495,299	1,164,370	222,969	21.4%	-43,552	-150,390	-	\$26.14	\$22.57
Morristown Region	11,117,193	1,985,373	200,656	19.7%	-122,439	-44,046	-	\$29.47	\$24.40
Newark/Urban Essex	17,545,926	3,182,562	156,898	19.0%	-41,430	3,079	467,532	\$30.57	\$25.30
Northwest Frontier	411,444	46,297	495	11.4%	-1,746	61,247	-	-	\$14.63
Parsippany	17,234,582	2,881,851	299,650	18.5%	280,681	282,882	-	\$29.31	\$23.61
Short Hills/Millburn	2,927,212	137,342	27,688	5.6%	-5,097	-61,939	-	\$38.93	\$31.71
Suburban Essex/Rt. 280	10,781,600	1,053,640	12,062	9.9%	11,421	352,478	-	\$26.85	\$23.93
Wayne/Paterson	5,924,922	823,661	15,513	14.2%	-31,686	221,975	22,000	\$23.88	\$16.70
Western Morris	2,985,850	1,178,288	0	39.5%	4,144	30,378	-	\$24.68	\$20.33
Northern New Jersey Total	121,335,516	17,729,890	1,719,257	16.0%	-332,993	434,951	849,532	\$28.97	\$23.65
Brunswick/South Edison	12,838,113	1,934,776	135,572	16.1%	19,095	-601,893	100,000	\$28.03	\$22.91
Hunterdon Cluster	4,520,797	1,220,751	226,641	32.0%	7,380	-155,771	-	\$22.01	\$19.43
Monmouth	11,169,466	1,143,411	81,850	11.0%	336,506	490,633	45,200	\$29.79	\$24.75
North Edison/Woodbridge	5,990,529	883,701	78,345	16.1%	24,411	53,776	-	\$33.13	\$20.92
Princeton North	2,141,942	274,819	39,799	14.7%	-68,160	61,971	-	\$24.86	\$24.59
Princeton South	17,098,271	1,345,136	316,964	9.7%	-54,493	6,104	132,000	\$30.19	\$22.92
Route 22 West	5,256,744	317,710	358,463	12.9%	101,791	179,927	68,000	\$25.76	\$20.47
Route 287	9,604,759	1,501,755	117,861	16.9%	35,850	-44,233	-	\$20.63	\$17.90
Route 78 East	15,751,519	1,818,942	146,923	12.5%	7,980	-395,396	-	\$28.68	\$23.05
Union	4,351,730	575,957	41,652	14.2%	-11,135	178,528	-	\$28.41	\$23.29
Central New Jersey Total	88,723,870	11,016,958	1,544,070	14.2%	399,225	-226,354	345,200	\$28.19	\$23.06
New Jersey Overall Total	210,059,386	28,746,848	3,263,327	15.2%	66,232	208,597	1,194,732	\$28.62	\$23.41

Numbers as of 1/3/18