

# MARKETBEAT

## Central New Jersey

### Office Q2 2018



#### CENTRAL NEW JERSEY OFFICE

##### Economic Indicators

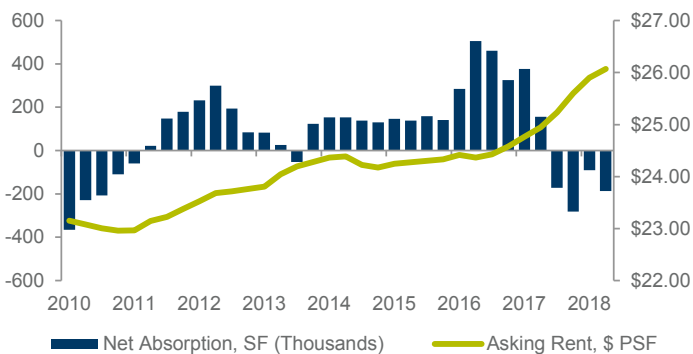
	Q2 17	Q2 18	12-Month Forecast
NJ Employment	4.3M	4.3M	▲
NJ Unemployment	4.5%	4.4%	■
U.S. Unemployment	4.3%	3.8%	▼

##### Market Indicators (Overall, All Classes)

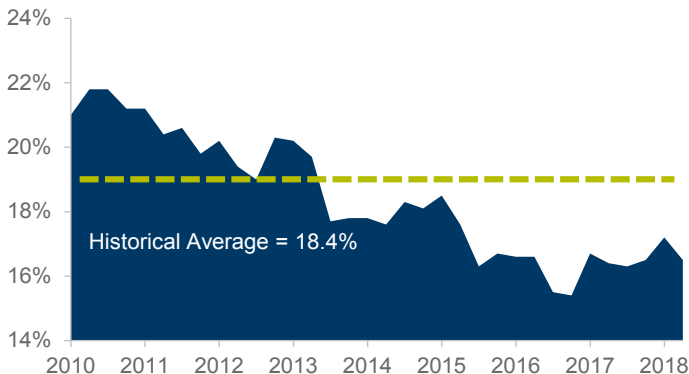
	Q2 17	Q2 18	12-Month Forecast
Vacancy	16.4%	16.5%	■
YTD Net Absorption (sf)	-251,961	-76,075	▲
Under Construction (sf)	0	97,500	■
Average Asking Rent*	\$25.22	\$26.58	▲

\*Rental rates reflect gross asking \$psf/year

##### Overall Net Absorption/Overall Asking Rent 4-QTR TRAILING AVERAGE



##### Overall Vacancy



##### Economy

New Jersey's labor market has remained on its course of modest growth. At 4.4%, the state's unemployment rate improved since one year ago, while private sector employment has increased by 54,200 jobs in that time. Office-using employment, the primary employment sector that propels the office real estate market, has risen by 9,300 jobs over the last 12 months, mostly within the professional and business services sub-sector. However, since the previous month, office-using employment has surged by 2,300 jobs, which should correlate with improved occupancy levels in the state.

##### Market Overview

Central New Jersey recorded robust second quarter leasing activity after several consecutive quarters of tempered demand. Totalling more than 1.1 million square feet (msf), the market recorded its strongest quarter of new leasing since the third quarter of 2016. Demand increased most notably quarter-over-quarter in the Princeton/Route 1 Corridor, Woodbridge/Edison, and the I-78 Corridor. Large leases drove this influx—while the first quarter of 2018 recorded no significant deals, two substantial transactions were signed in the second quarter. Integra LifeSciences leased the full 166,791-square-foot (-sf) building at 1100 Campus Road in Princeton, while Plymouth Rock Assurance took 130,000 sf of space at 581 Main Street in Woodbridge. Together with the I-78 Corridor, these three submarkets accounted for two thirds of second quarter leasing activity in Central New Jersey. A significant influx of activity occurred within Class A assets, where demand climbed drastically since the first quarter.

The surge in demand pushed market vacancy lower. Since last quarter, the overall vacancy rate in Central New Jersey decreased by 70 basis points (bps) to 16.5%. The Princeton/Route 1 and I-78 Corridors recorded the most substantial improvements in occupancy. Only one new large-block availability entered the market—a 110,000-sf space in the I-78 Corridor. As a result, demand easily offset new supply and the market recorded nearly 409,000 sf of positive net absorption for the quarter.

The average asking rent continued to trend upward, ticking marginally higher since the first quarter by \$0.13 per square foot (psf) to \$26.65. The Class A average declined slightly, due largely to the leasing of the high-quality large blocks of space with above-average asking rents during the second quarter. Areas such as Metropark and Princeton/Route 1 continue to command a premium for Class A space over the remainder of the marketplace.

##### Outlook

Tenant demand is expected to remain healthy throughout the second half of 2018. Substantial deals are in the immediate pipeline in Princeton/Route 1 and Monmouth County, and these key submarkets are projected to propel improvements in occupancy within Central New Jersey. Upgraded, amenity-rich assets will continue to outperform the remainder of the marketplace with higher occupancy rates and asking rents. While some mid-sized spaces are slated to come online before the end of 2018, demand will likely offset these and keep absorption in the black.

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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)*	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)**	OVERALL AVERAGE ASKING RENT (CLASS A)**
Hunterdon County	1,729,585	231,141	238,514	27.2%	4,950	7,214	7,914	0	\$21.35	\$20.75
Mercer County	16,617,349	484,377	1,999,261	14.9%	191,998	126,702	425,777	97,500	\$29.58	\$34.32
Middlesex County	23,604,820	283,622	4,004,195	18.2%	86,746	-163,881	657,228	0	\$26.63	\$29.36
Monmouth County	11,319,932	77,587	1,134,892	10.7%	24,417	72,018	147,261	0	\$25.75	\$31.51
Somerset County	19,524,364	586,360	3,184,119	19.3%	112,989	-82,097	247,564	0	\$24.76	\$26.57
Union County	8,306,256	161,987	1,026,656	14.3%	-12,104	-36,031	222,181	0	\$26.51	\$29.29
<b>CENTRAL NJ TOTALS</b>	<b>81,102,306</b>	<b>1,825,074</b>	<b>11,587,637</b>	<b>16.5%</b>	<b>408,996</b>	<b>-76,075</b>	<b>1,707,925</b>	<b>97,500</b>	<b>\$26.58</b>	<b>\$29.74</b>
<b>SELECTED SUBMARKETS</b>										
I-78 Corridor	18,293,855	891,299	2,872,338	20.6%	43,375	-226,284	300,437	0	\$27.80	\$29.77
Princeton/Route 1 Corridor	16,931,841	504,205	3,107,160	21.3%	199,409	-83,908	395,691	97,500	\$28.91	\$32.58
Upper 287 Corridor	9,681,180	150,379	1,616,092	18.2%	-65,545	-98,766	189,197	0	\$20.82	\$22.13
Woodbridge/Edison	8,514,160	62,782	1,050,140	13.1%	124,496	133,132	379,419	0	\$32.06	\$35.34

\*Leasing activity does not include renewals \*\*Rental rates reflect gross asking \$psf/year

### Key Lease Transactions Q2 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
1100 Campus Road, Princeton	166,791	Integra LifeSciences Corporation	New Lease	Princeton/Rt. 1 Corridor
581 Main Street, Woodbridge	129,600	Plymouth Rock Assurance	New Lease	Woodbridge/Edison
1095 Morris Avenue, Union	61,006	SS&C Technologies	New Lease	Clark & Cranford
1 Corporate Place South, Piscataway	47,419	Marlabs	Sale-Leaseback	Upper 287 Corridor

### Key Sales Transactions Q2 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
1130, 1140, 1150, 1160 Route 22 East, Bridgewater	328,621	American Real Estate Partners/ Signature Acquisitions	\$46,000,000/\$140	I-78 Corridor
700 Horizon Center Drive, Hamilton	120,000	Mack-Cali Realty Corporation/ Cole Real Estate Income Strategy	\$34,750,000/\$290	Princeton/Rt. 1 Corridor
1 Corporate Place South, Piscataway	90,001	Marlabs Inc./Norden Realty Investments	\$10,000,000/\$111	Upper 287 Corridor
2 Executive Drive, Franklin Township	80,000	Denholtz Associates/ Torsiello Organization	\$6,800,000/\$85	Upper 287 Corridor

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