

MARKETBEAT

Central New Jersey

Office Q3 2018



CENTRAL NEW JERSEY OFFICE

Economic Indicators

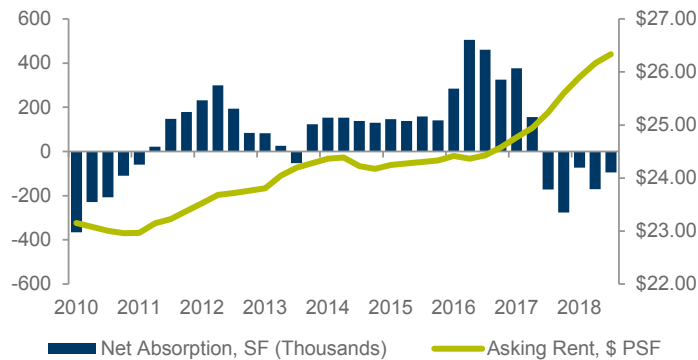
	Q3 17	Q3 18	12-Month Forecast
NJ Employment	4.1M	4.2M	▲
NJ Unemployment	4.7%	4.2%	■
U.S. Unemployment	4.4%	3.9%	▼

Market Indicators (Overall, All Classes)

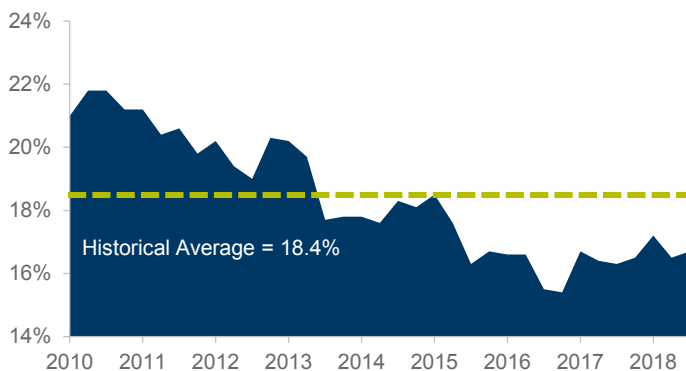
	Q3 17	Q3 18	12-Month Forecast
Vacancy	16.3%	16.7%	■
YTD Net Absorption (sf)	-721,792	-179,922	▲
Under Construction (sf)	0	97,500	■
Average Asking Rent*	\$25.49	\$26.57	▲

*Rental rates reflect gross asking \$psf/year

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



Overall Vacancy



Economy

The New Jersey unemployment rate held steady at 4.2%, marginally higher than the national rate. Private sector employment posted increases for eight straight months and is up 1.7% since one year ago. Since the start of 2017, more than 83,000 private sector jobs were added in the Garden State. There has been a nominal increase of 0.9% year-over-year within office-using industries, led by professional and business services. After posting job losses throughout much of 2017, which correlated to the office market's lackluster performance, year-to-date office-using employment gains were moderate.

Market Overview

Central New Jersey's fundamentals held steady throughout the third quarter, with an overall vacancy rate of 16.7% that remained relatively stable since the previous quarter. Among Class A product, the most significant improvement was recorded in Monmouth County, where the vacancy rate declined 230 basis points since the second quarter. Direct absorption remained flat throughout the third quarter, with Class B gains offsetting Class A losses. Both the I-78 Corridor and Princeton/Route 1 recorded occupancy losses, while Monmouth County gained more than 50,000 square feet (sf) of occupancy. While only one substantial block of space came online during the quarter—210,000 sf at 30 Independence Boulevard in the I-78 Corridor—four new sublease availabilities ranging from 20,000-80,000 sf pushed the overall absorption total back into the red.

Though leasing did not reach the robust level of the second quarter, activity was healthy and the year-to-date total remains slightly ahead of 2017's pace. Three new transactions greater than 50,000 sf were signed, accounting for 38.6% of the quarterly total. A wide variety of industries were active, including pharmaceutical/life sciences and insurance companies, and Class A assets continued to drive demand. The I-78 Corridor and the Princeton/Route 1 Corridor were the strongest performers, each recording more than 200,000 sf of new activity. In one of the largest transactions in the state, biopharmaceutical firm Insmad signed a lease to relocate into 117,022 sf at 700 Route 202/206 with an option to expand in the future. The building in the I-78 Corridor is currently undergoing renovations. Within the same submarket, AIG renewed and downsized to 241,182 sf of space in the largest renewal in New Jersey in 2018-to-date.

The average asking rent continued to climb marginally, rising \$0.06 per square foot (psf) since the second quarter to \$26.71 psf. However, the Class A average declined as large, high-quality blocks of space with above-average rents leased up. Areas such as Metropark and Princeton/Route 1 continued to command a premium for Class A space over the remainder of the marketplace, with the latter reaching a historic high of \$36.90 psf at the close of the third quarter.

Outlook

Occupancy will remain stable throughout the final months of 2018, with steady demand expected in key areas. However, several large vacancies loom on the horizon for 2019, particularly in Princeton/Route 1 and the I-78 Corridor. Touring activity remains healthy among tenants in the market for more than 30,000 sf, including a handful seeking over 100,000 sf, which bodes well for demand in the first half of next year and could potentially offset some of the impending vacancies.

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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	230,166	26.7%	2,000	15,562	9,914	0	\$21.48	\$20.75
Mercer County	16,617,349	576,065	2,077,490	16.0%	-162,645	-19,474	568,448	97,500	\$29.46	\$33.00
Middlesex County	23,604,820	330,617	3,971,733	18.2%	13,433	-141,541	910,421	0	\$26.31	\$28.97
Monmouth County	11,319,932	60,578	996,590	9.3%	51,413	123,431	199,430	0	\$25.76	\$31.78
Somerset County	19,524,364	599,323	3,343,371	20.2%	-218,749	-263,487	529,061	0	\$24.65	\$26.37
Union County	8,306,256	132,312	988,431	13.5%	123,658	105,587	322,085	0	\$27.08	\$29.62
CENTRAL NJ TOTALS	81,102,306	1,930,036	11,607,781	16.7%	-190,890	-179,922	2,539,359	97,500	\$26.57	\$29.45
SELECTED SUBMARKETS										
I-78 Corridor	18,293,855	892,374	3,044,015	21.5%	-242,723	-453,918	539,763	0	\$27.71	\$29.51
Princeton/Route 1 Corridor	16,931,841	595,893	3,093,652	21.8%	-112,038	-179,477	635,668	97,500	\$28.55	\$30.83
Upper 287 Corridor	9,681,180	183,267	1,584,085	18.3%	-2,433	-72,581	229,764	0	\$20.71	\$22.17
Woodbridge/Edison	8,514,160	80,442	1,000,876	12.7%	13,526	155,565	478,708	0	\$32.27	\$35.43

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

Key Lease Transactions Q3 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
100 Connell Drive, Berkeley Heights	241,182	AIG	Renewal	I-78 Corridor
700 Route 202/206, Bridgewater	117,022	Insmed Inc.	New Lease	I-78 Corridor
100 Overlook Center, West Windsor	67,008	The Trustees of Princeton University	New Lease	Princeton-Rt. 1
379 Thornall Street, Edison	48,656	New York Life Insurance	Renewal/Expansion	Woodbridge/Edison

Key Sales Transactions Q3 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
371 Hoes Lane, Piscataway	136,581	CW Capital/Greenway Properties	\$5,958,750/\$44	Upper 287 Corridor
100 Matawan Road, Old Bridge	128,000	Palatine Capital Partners/ Signature Acquisitions	\$19,750,000/\$154	The Brunswicks
600 Horizon Center Drive, Hamilton Township	95,000	Mack-Cali Realty/Sam One Realty	\$2,375,000/\$25	Princeton-Rt. 1 Corridor
Portfolio: 215 & 235 Birchwood Avenue, Cranford	54,430	Township of Cranford/Garden Homes	\$18,500,000/\$367	Clark & Cranford

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