

MARKETBEAT

Central New Jersey

Office Q1 2019



CENTRAL NEW JERSEY OFFICE

Economic Indicators

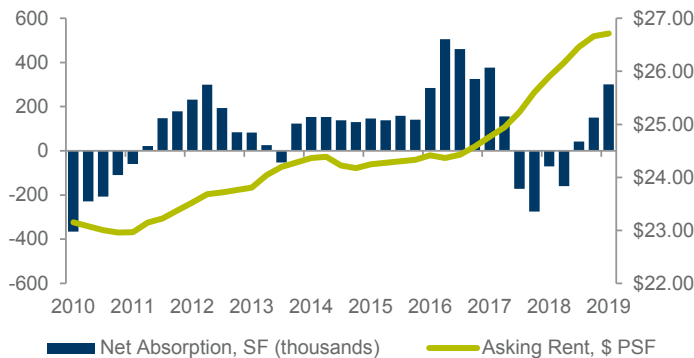
	Q1 18	Q1 19	12-Month Forecast
NJ Employment	4.2M	4.2M	▲
NJ Unemployment	4.5%	4.0%	▲
U.S. Unemployment	4.1%	3.8%	▼

Market Indicators (Overall, All Classes)

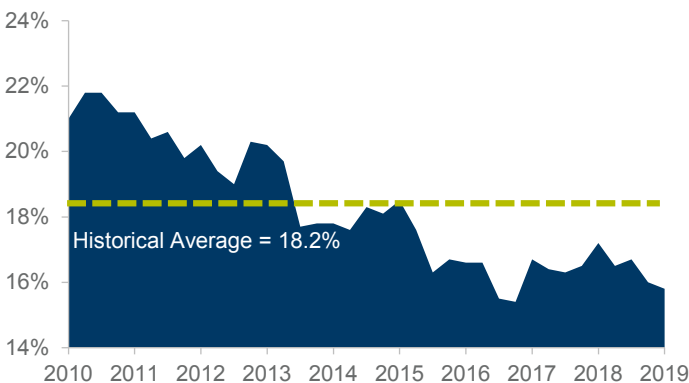
	Q1 18	Q1 19	12-Month Forecast
Vacancy	17.2%	15.8%	▲
YTD Net Absorption (sf)	-452k	342k	▲
Under Construction (sf)	0	0	▲
Average Asking Rent*	\$26.45	\$26.49	▲

*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 remained stable at 4.0% as the local economy remained healthy throughout the first quarter. The private sector rose by 0.9% over the past year as the professional & business services and education & health services sectors posted the highest annual gains. More recently, private sector employment declined by 9,300 jobs in February, marking the largest monthly losses in more than one year for the Garden State. Office-using employment, which is the main driver for office demand, was relatively flat year-over-year at 4.2 million employees.

Market Overview

Central New Jersey posted modest improvements during the first quarter of 2019, with vacancy declining for the third consecutive quarter. At 15.8%, vacancy is at its lowest point since year-end 2016. The I-78 Corridor and Monmouth County recorded the most significant improvements, falling 80 basis points (bps) and 70 bps respectively since year-end 2018. Meanwhile, recent historical vacancy lows were achieved in Monmouth County and Woodbridge/Edison. Despite several sublease spaces added to the market during the quarter—including two blocks greater than 50,000 square feet (sf) in Princeton/Route 1 and one in Monmouth County—new leasing offset these additions, yielding positive net absorption. Every major submarket closed the first quarter comfortably in the black, and the Central New Jersey market recorded more than 340,000 sf of quarterly net occupancy gains.

Nearly 850,000 sf of new leases were signed, exceeding demand from the first quarter of 2018 by 35.9%. The total was driven by deals in the legal services, pharmaceutical, and technology industries. Monmouth County and the I-78 Corridor had the most robust demand, each recording more than 200,000 sf of new transactions. The flight to quality among tenants occupying 10,000 sf and greater remained evident as 81.3% of new transactions in this size range were signed within Class A assets. However, small leases accounted for 45.8% of all new quarterly activity, with a more even balance across building classes. Renewal activity was robust, with nearly 400,000 sf of tenants opting to extend their commitments to their existing locations.

The direct average asking rent finished the quarter \$0.19 per square foot (psf) higher than one year prior, despite a slight downtick since the fourth quarter of 2018 to \$26.75 psf as a number of high-priced, mid-size spaces were leased during the early months of 2019. Although Central New Jersey did not record substantial rent growth in any key submarkets, Class A product in Metropark and the Princeton/Route 1 Corridor remain among the priciest in the state.

Outlook

After a stable first quarter, expect occupancy to fluctuate throughout the remainder of 2019 with both substantial new supply and demand predicted in key submarkets. While several large blocks of space face impending vacancies, particularly in the I-78 Corridor and Princeton/Route 1 Corridor, anticipate several mid-sized leases to transact while some large tenants could potentially land before the end of 2019. Life sciences and technology companies should continue to drive demand, drawn to Central New Jersey's geographic location and educated workforce.

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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	2,945,435	231,141	242,685	16.1%	0	0	0	0	\$21.42	\$20.75
Mercer County	16,834,849	607,987	2,108,745	16.1%	-57,126	-57,126	88,236	0	\$29.23	\$32.25
Middlesex County	23,604,820	261,126	3,800,825	17.2%	88,360	88,360	164,109	0	\$26.84	\$29.71
Monmouth County	11,325,157	117,197	849,890	8.5%	89,070	89,070	264,049	0	\$24.13	\$31.10
Somerset County	19,422,019	519,214	3,312,518	19.7%	136,395	136,395	219,223	0	\$24.29	\$25.80
Union County	8,395,256	153,836	835,464	11.8%	85,144	85,144	113,677	0	\$27.11	\$29.77
CENTRAL NJ TOTALS	82,527,536	1,890,501	11,150,127	15.8%	341,843	341,843	849,294	0	\$26.49	\$29.26
SELECTED SUBMARKETS										
I-78 Corridor	19,502,360	824,636	2,909,186	19.1%	158,182	158,182	232,489	0	\$27.03	\$28.65
Princeton/Route 1 Corridor	17,237,341	604,018	3,066,638	21.3%	57,436	57,436	122,243	0	\$28.39	\$30.39
Upper 287 Corridor	9,681,180	157,413	1,424,720	16.3%	3,908	3,908	19,572	0	\$20.72	\$22.22
Woodbridge/Edison	8,514,160	51,490	963,727	11.9%	55,619	55,619	79,589	0	\$32.80	\$35.94

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

Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
250 Industrial Way West, Eatontown	186,790	Tyco Submarine Systems	Renewal	Monmouth County
440 Route 22 East, Bridgewater	57,747	Amarin Corporation	New Lease	I-78 Corridor
502 Carnegie Center, West Windsor	52,000	Morgan, Lewis & Bockius LLP	Renewal	Princeton/Route 1 Corridor
90 Old Matawan Road, Old Bridge	51,869	Fragomen, Del Rey, Bernsen & Loewy	Renewal	The Brunswicks

Key Sales Transactions Q1 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
99 Wood Avenue South, Woodbridge	271,000	TA Associates Realty / Mack-Cali Realty Corporation	\$61,500,000 / \$227	Woodbridge/Edison
721 Route 202/206, Bridgewater	192,000	Mack-Cali Realty Corporation / Edgewood Properties	\$6,000,000 / \$31	I-78 Corridor
5 Independence Way, South Brunswick	113,244	Normandy Real Estate Partners / Smart Investment Group	\$9,350,000 / \$83	Princeton/Route 1 Corridor
Portfolio: 766 Shrewsbury Avenue, Tinton Falls	70,000	Real Capital Solutions / Paramount Realty Services	\$10,100,000 / \$144	Monmouth County

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