

MARKETBEAT

Central New Jersey

Office Q4 2018



CENTRAL NEW JERSEY OFFICE

Economic Indicators

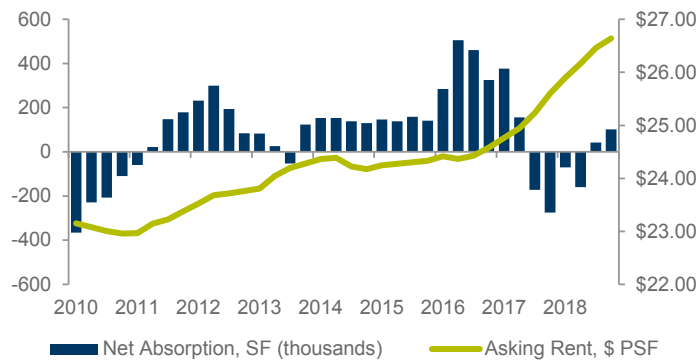
	Q4 17	Q4 18	12-Month Forecast
NJ Employment	4.2M	4.2M	▲
NJ Unemployment	4.7%	4.0%	■
U.S. Unemployment	4.1%	3.7%	▼

Market Indicators (Overall, All Classes)

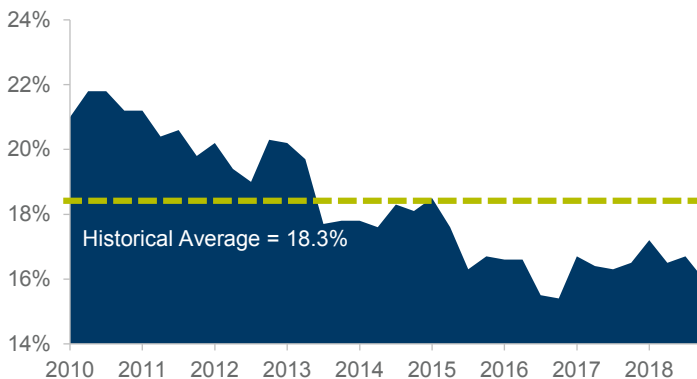
	Q4 17	Q4 18	12-Month Forecast
Vacancy	16.5%	16.0%	▲
YTD Net Absorption (sf)	-922k	408k	▼
Under Construction (sf)	0	0	■
Average Asking Rent*	\$25.75	\$26.71	▲

*Rental rates reflect gross asking \$psf/year

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



Overall Vacancy



Economy

At 4.0%, the New Jersey unemployment rate fell to its lowest point since June 2001, marking a 70-basis point (-bp) decline since 2017. Despite a nominal drop in November 2018, private sector employment has increased by almost 62,000 jobs since one year prior. The surge was largely fueled by a 3.2% rise in professional and business services employment. While this sector's gains have helped propel the recent office market improvements in the state, both the financial services and information sectors recorded job losses throughout 2018.

Market Overview

Central New Jersey posted modest improvements in market fundamentals during the final months of 2018. After holding stable for much of the year, the vacancy rate declined 70 basis points (bps) to 16.0%, its lowest point since the fourth quarter of 2016. Vacancy decreases were recorded in every county since the third quarter, with the Upper 287 Corridor, Woodbridge/Edison, and Monmouth County posting the most significant year-over-year vacancy drops. Meanwhile, a 50,000-square-foot (-sf) block in the Princeton/Route 1 Corridor was the only sizable availability to come online during the quarter. As a result, demand easily outpaced new supply and the market recorded nearly 540,000 sf of positive net absorption for the quarter, bringing the annual total comfortably into the black with nearly 410,000 sf of net gains.

Following a slight decrease in demand during the third quarter, activity picked up again and Central New Jersey recorded nearly 940,000 sf of new leasing in the final quarter of the year. Quarterly activity was driven by the I-78 Corridor, where Merck & Co. leased back 223,350 sf—the most significant transaction of the quarter. The life science company sold its 1.2-million-square-foot (msf) two-building campus in Whitehouse to UNICOM Global and then executed a lease-back on the smaller of the two facilities. Class A assets drove demand, accounting for 81.4% of the quarterly total. Renewal activity was also healthy, with PVH and Blackrock Financial Management each renewing over 200,000 sf in the I-78 Corridor and the Princeton/Route 1 Corridor, respectively. The pharmaceutical industry drove leasing throughout the year, accounting for 19.5% of all 2018 activity, with Merck, Integra LifeSciences, Insmid, Amneal Pharmaceuticals, and Celgene each leasing more than 50,000 sf throughout the year. While four new leases greater than 100,000 sf were inked during 2018, small deals drove the market, with leases under 25,000 sf accounting for 58.3% of new demand.

The average asking rent continued to climb, rising \$0.25 per square foot (psf) since the third quarter to \$26.97. After a down-tick during the third quarter caused by the leasing of several high-quality large blocks of space, the Class A average increased, surpassing the \$30.00-psf mark once again. Metropark and Princeton/Route 1 remain among the highest-priced submarkets in the state while Monmouth County's Class A rate reached the \$32.00-psf mark for the first time on record.

Outlook

After stabilizing throughout the final months of 2018, occupancy is expected to fall in 2019. Several large vacancies loom on the horizon for 2019, most notably in the I-78 Corridor and Princeton/Route 1. However, several large and mid-sized tenants are in the market in these two areas, and touring activity remains healthy across Central New Jersey in general, which could potentially help to 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	2,945,435	231,141	249,269	16.3%	-19,103	-3,541	233,264	0	\$21.42	\$20.75
Mercer County	16,714,849	552,605	2,092,402	15.8%	136,780	109,416	657,971	0	\$29.56	\$32.94
Middlesex County	23,604,820	259,863	3,816,378	17.3%	290,430	167,373	1,116,808	0	\$26.83	\$29.77
Monmouth County	11,319,932	54,697	983,973	9.2%	28,210	151,641	277,705	0	\$25.66	\$32.03
Somerset County	19,517,019	584,492	3,337,347	20.1%	48,057	-196,039	676,642	0	\$24.33	\$25.87
Union County	8,306,256	127,890	909,064	12.5%	53,470	179,231	501,812	0	\$27.29	\$30.08
CENTRAL NJ TOTALS	82,408,311	1,810,688	11,388,433	16.0%	537,844	408,081	3,464,202	0	\$26.71	\$29.59
SELECTED SUBMARKETS										
I-78 Corridor	19,502,360	873,121	3,016,472	19.9%	36,493	-388,996	984,839	0	\$27.07	\$28.66
Princeton/Route 1 Corridor	17,117,341	548,636	3,111,070	21.4%	215,397	42,146	780,515	0	\$28.74	\$31.03
Upper 287 Corridor	9,681,180	157,413	1,461,377	16.7%	133,080	69,733	321,993	0	\$20.72	\$22.26
Woodbridge/Edison	8,514,160	66,839	957,182	12.0%	91,540	254,412	543,267	0	\$32.59	\$35.81

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

Key Lease Transactions Q4 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
1001 Frontier Road, Bridgewater	224,000	Phillips-Van Heusen	Renewal	I-78 Corridor
2 Merck Drive, Whitehouse	223,350	Merck	Sale/Leaseback	I-78 Corridor
1 University Square Drive, West Windsor	204,443	Blackrock Financial Management	Renewal	Princeton-Rt. 1
15 Independence Boulevard, Warren Township	61,230	Mitsui Sumitomo	Renewal	I-78 Corridor

Key Sales Transactions Q4 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Portfolio: 1 & 2 Merck Drive, Whitehouse	1,215,850	Merck / UNICOM Global	\$25,000,000/\$21	I-78 Corridor
Portfolio: 300, 400, & 500 Atrium Drive, Franklin Township	669,785	Macquarie Group/LNR Partners / Bakertown Realty Group	\$33,500,000/\$50	Upper 287 Corridor
41 Spring Street, New Providence	176,000	Mountain Development Corp. / Shelbourne Global Solutions	\$23,000,000/\$136	Route 24 Corridor
Portfolio: 3525 & 3535 Quakerbridge Plaza, Hamilton Township	117,000	Kiwi Offices / Ibis Realty LLC	\$13,600,000/\$116	Princeton/Rt 1 Corridor

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