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Sources: C&W Research, Bionj.com, NJ Department of Labor, Choose NJ
C&W OVERVIEW

Cushman & Wakefield, Inc. (“C&W”) is one of the largest commercial real estate firms in the world. Founded in 1917, C&W now operates from 259 offices in 60 countries with 16,000+ employees. Our professionals offer expertise in every business sector and real estate class and deliver integrated solutions by actively advising, implementing and managing on behalf of tenants, landlords and investors throughout every stage of the real estate process.

C&W’s core services — Leasing, Capital Markets, Valuation & Advisory, Consulting, and Corporate Occupier & Investor Services — span the full continuum of real estate services. We employ the leading professionals in these fields, thereby ensuring best-of-class services in each area.

With a culture that puts our clients’ needs and objectives first in everything we do, C&W has the expertise to provide the best possible commercial real estate services in the world.

INTRODUCTION

The pharmaceutical and life sciences industry has played a key role in New Jersey’s economy for many years. Many of the world’s largest pharmaceutical firms either own or lease substantial amounts of space in the Garden State, which has helped New Jersey gain the moniker “Medicine Chest of the Nation.”

The Garden State is home to some of the largest pharmaceutical companies in the world, including Johnson & Johnson, Merck & Co., Novartis, Bristol-Meyers Squibb, Sanofi, and Bayer. Residents also include biotech companies Celgene and Amicus Therapeutics. New Jersey’s skilled and highly educated workforce, its highway system, and its proximity to NYC and the Port of NY/NJ have made the state a desirable location for global pharmaceutical firms. These high-profile companies are also drawn to New Jersey’s 63 colleges, which produce 22,000 life sciences graduates annually, and the state is home to six higher education universities offering graduate and post graduate degrees in the field.

However, since the last recession, there have been many cost-cutting moves by the industry, including corporate consolidations and mergers and acquisitions. In turn, New Jersey has seen its fair share of pharmaceutical companies exit the local marketplace; most recently, Roche. However, small and mid-sized pharmaceutical companies have increased demand for space over the last few years while the number of pharmaceutical companies in the state has increased 4.2% since 2013. Firms such as Roche, which recently vacated its Nutley campus in a move across the river to NYC’s Alexandria Center, have left a glut of space available in both the office and lab/R&D markets.

Meanwhile, Merck’s Whitehouse Station headquarters facility and Summit and Union sites are currently for sale. Novartis vacated over 365,000 square feet (sf) of its office space in Florham Park, putting it on the market for lease as it consolidated into owned campuses.

In addition, mergers and acquisitions by companies such as Watson Pharmaceuticals purchasing Actavis (whose name was then adopted), Warner Chilcott, Allergan, and Forest Laboratories, have ended with blocks of space added to the supply over the last few years. As many large pharma and life science companies re-evaluate their real estate needs and costs of owning and/or leasing in the New Jersey market, this trend of large consolidations and departures could very well continue in the coming years.

ECONOMY

As of early 2014, there were over 3,000 operations within the bio-pharmaceutical life sciences cluster in New Jersey, consisting of the pharmaceutical, medical device, and biotech/R&D industries, with an economic impact of $26 billion annually. From 2008 through 2013, the number of companies operating in New Jersey has declined by 0.1%, due in large part to consolidations and relocations. According to the State of New Jersey, the life sciences cluster boasted more than 115,000 workers during 2013, or 3.6% of the state’s total. In comparison, the cluster accounts for just 2.0% nationwide.

The pharmaceutical sector employs 50,016 people in the Garden State, 43.5% of the life sciences cluster’s total. Although the pharma sector boasts the highest concentration of employees in the cluster, it has also seen a notable decline in payrolls from 2008 to 2010 (-11.1%), mainly due to the aforementioned mergers, acquisitions, and major consolidations. Over the next two years, the workforce declined at a slower rate (-4.2%), and edged slightly higher in 2013.

Much of the industry’s workplace is located in Northern New Jersey, where 48.3% of the jobs lie. Meanwhile, Central New Jersey boasts 42.1% of the state total.

New Jersey has historically filled the industry’s need for a highly educated and skilled workforce. There are 20 four-year universities in the state, including Princeton and Rutgers, along with top engineering schools. Furthermore, more than 35.5% of the population age 25+ holds at least a bachelor’s degree. From 2008 to 2010, the number of post graduate degrees in the state, including Princeton and Rutgers, along with top engineering schools. Furthermore, more than 35.5% of the population age 25+ holds at least a bachelor’s degree. From 2008 to 2010, the number of post graduate degrees in the state, including Princeton and Rutgers, along with top engineering schools. Furthermore, more than 35.5% of the population age 25+ holds at least a bachelor’s degree. From 2008 to 2010, the number of post graduate degrees in the state, including Princeton and Rutgers, along with top engineering schools. Furthermore, more than 35.5% of the population age 25+ holds at least a bachelor’s degree. From 2008 to 2010, the number of post graduate degrees in the state, including Princeton and Rutgers, along with top engineering schools. Furthermore, more than 35.5% of the population age 25+ holds at least a bachelor’s degree. From 2008 to 2010, the number of post graduate degrees in the state, including Princeton and Rutgers, along with top engineering schools. Furthermore, more than 35.5% of the population age 25+ holds at least a bachelor’s degree. From 2008 to 2010, the number of post graduate degrees in the state, including Princeton and Rutgers, along with top engineering schools. Furthermore, more than 35.5% of the population age 25+ holds at least a bachelor’s degree. From 2008 to 2010, the number of post graduate degrees in the state, including Princeton and Rutgers, along with top engineering schools. Furthermore, more than 35.5% of the population age 25+ holds at least a bachelor’s degree.

Within the life sciences/pharma industry itself, over 65% have obtained a bachelor’s degree or higher.
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NUMBER OF NJ EMPLOYEES BY INDUSTRY

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number of NJ Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pharmaceuticals</td>
<td>50,016</td>
</tr>
<tr>
<td>Medical Device</td>
<td>24,251</td>
</tr>
<tr>
<td>Biotech/R&amp;D</td>
<td>40,779</td>
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</tbody>
</table>
New Jersey’s class A inventory, where the majority of pharmaceutical and life sciences companies opt to lease space, consists of 100.2 million square feet (msf) and boasts an average asking rent of $29.54 per square foot (psf). Since the start of 2010, pharmaceutical and life sciences corporations have accounted for more than 22.0% of all new class A office leasing within the state. Since then, there have been 45,000+ sf transactions executed by this sector. Renewal activity has also been robust, as last year alone saw over 465,000 sf of office space renewed within the industry.

Life sciences demand has been heavily concentrated within a few specific geographic areas in New Jersey. The I-78 Corridor, Princeton/Route 1 Corridor, and Morris County together comprise 81.3% of life sciences leasing since 2010. Over the past five years, the I-78 and Princeton/Route 1 Corridors have each seen over 1.3 msf of new leasing activity; while Princeton’s activity was dominated by transactions in excess of 10,000 sf.

In one of the most noteworthy leases in recent history, Novo Nordisk leased 770,000 sf of specially-renovated space in Princeton in 2011. Otsuka Pharma expanded during 2013, and now occupies over 130,000 sf in Princeton. Meanwhile, a handful of significant deals occurred in the I-78 Corridor: Valeant Pharmaceuticals relocated its headquarters and leased 310,000 sf of class A space in 2013; LifeCell Corporation took 117,937 sf in 2011; and Celgene expanded by 79,323 sf and renewed for a total of 104,323 sf in one of its multiple locations in the area. Most recently, GlaxoSmithKline (Novartis) took over 144,000 sf of class A space in Warren for their headquarters.

In addition to these office-based transactions, the I-78 Corridor saw a unique abundance of activity within high technology/R&D facilities in 2013 when Ashland Chemical and Amneal Pharmaceuticals leased 198,000 sf and 141,930 sf, respectively, at the former Sanofi-Aventis site in Bridgewater, now known as the Center of Excellence.

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Many drug companies now want to be near university centers of excellence that conduct life science related research (i.e., California and Massachusetts). Something the Garden State does not have in terms of scope and size. In turn, New Jersey is no longer a strongly desirable location for companies to set up research and lab facilities, which makes large leases like that of Ashland Chemical and Amneal Pharmaceuticals now unique. However, life sciences firms continue to view the state as a viable option for office space and headquarters locations. Located centrally along the Boston-D.C. life sciences corridor, New Jersey offers both an educated workforce and competitive rental rates.

Several relocations have occurred within the past several years, creating hundreds of new jobs within the sector. In 2013, the aforementioned Valeant Pharmaceuticals acquired Bausch & Lomb and relocated its headquarters within the state, more than doubling its footprint in New Jersey. This transaction added 500 new jobs to the 274 already existing in the state.

Swiss company Ferring Pharmaceuticals recently purchased a 135,000-sf facility in Parsippany for future expansion. Generic drug manufacturer Actavis (formerly known as Watson) chose New Jersey as its global headquarters campus. Swiss company Chugai Pharmaceuticals purchased an additional 91,000 sf in Parsippany to house research efforts. The company also recently acquired Forest Laboratories, Warner Chilcott, and Allergan and has been relocating most of its operations to New Jersey.

500 new jobs created with Valeant Pharma’s 310,000 sf lease in 2013

The lab/R&D market consists of over 6.7 msf of non-owner occupied space within both office and flex properties. The bulk of this market is concentrated in Morris, Somerset, and Middlesex counties. The majority of the inventory which houses lab/R&D space is less than 100,000 sf in size as only 17 buildings exceed that number within the inventory tracked. The largest facility—the former Sanofi campus in Bridgewater—exceeds 1.0 msf. The “Center of Excellence” has seen two transactions (Amneal Pharmaceuticals and Ashland Chemical) signed during 2013, bringing the campus to almost 50.0% occupancy. However, a handful of the buildings in the campus are slated to be demolished later this year.

Vacancy within the lab and R&D market has hovered above 25.0% in recent years, although it has seen a modest decline since reaching its peak of 29.3% in 2013. Since this year began, the vacancy rate fell by 2.0 percentage points due to some healthy demand. As of Q2, there were 11 blocks of space available throughout the market in excess of 50,000 sf, five of which exceeded 100,000 sf. Activity within these properties has seen some major fluctuations annually since 2011, with more than 800,000 sf of space leased in that time. Notable deals were inked by Amneal Pharmaceuticals, Ashland Chemical, Bristol-Myers Squibb, Celgene and Bracco Diagnostics. Much of the deal volume was concentrated around Princeton/Route 1 and the I-78 Corridor.

Meanwhile, asking rents are down 4.5% since the close of 2013, as competition to attract companies in need of lab space has been strong due to the plethora of space being marketed for lease in the state. Since the start of 2015, however, asking rents have remained stable throughout many of these buildings. With some large pharmaceutical companies moving their research needs to other markets such as Cambridge, Boston, and San Francisco due to their proximity to a higher concentration of universities and centers of excellence, New Jersey has seen a significant amount of R&D facilities placed on the market for sale or lease.

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