

MARKETBEAT

Northern New Jersey

Office Q1 2019



NORTHERN NEW JERSEY OFFICE

Economic Indicators

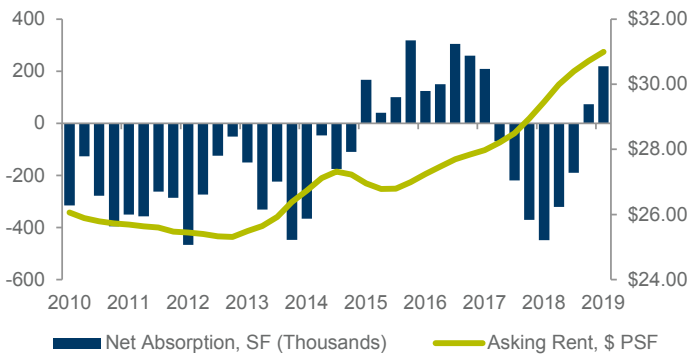
| | Q1 18 | Q1 19 | 12-Month Forecast |
|-------------------|-------|-------|-------------------|
| NJ Employment | 4.2M | 4.2M | ■ |
| NJ Unemployment | 4.5% | 4.0% | ■ |
| U.S. Unemployment | 4.1% | 3.8% | ▼ |

Market Indicators (Overall, All Classes)

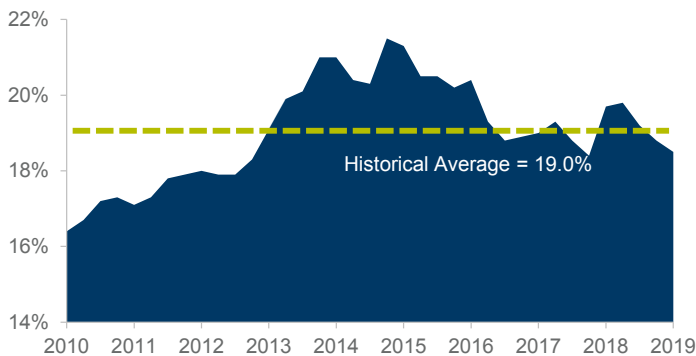
| | Q1 18 | Q1 19 | 12-Month Forecast |
|-------------------------|---------|---------|-------------------|
| Vacancy | 19.7% | 18.5% | ▼ |
| YTD Net Absorption (sf) | -581k | 1,033 | ▲ |
| Under Construction (sf) | 760k | 1.0M | ▼ |
| Average Asking Rent* | \$30.13 | \$31.16 | ■ |

*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

The Northern New Jersey office market continued to strengthen with positive net absorption and declining vacancy for the third consecutive quarter. At 18.5%, vacancy reached its lowest point since year-end 2017. Most of the major submarkets in Northern New Jersey posted either stable or declining vacancy rates throughout the quarter, as leasing activity picked up momentum in the first months of 2019. Most notably, the Morristown, Meadowlands, and Bergen County submarkets posted healthy occupancy improvements during the quarter. Within Class A assets, vacancy has fallen steadily since mid-year 2018 and is down 130 basis points (bps) since one year ago as much of the tenant demand remains within the Class A office stock. Meanwhile, asking rents steadily climbed over the last two years, ticking higher for nine straight quarters. At \$31.16 per square foot (psf) the average rate ended the first quarter at a new historical high, up 3.4% year-over-year. The steady rise was due to improving market conditions in recent quarters, some owners upgrading their assets to attract tenants, employees wanting fully amenitized workplaces, and higher quality space becoming available. Class A space has been driving this increase, as the average asking rent has swelled by 4.0% since the first quarter of 2018. However, the rate stabilized during the first quarter as some higher-priced spaces in premier submarkets leased up. At the close of the quarter, nine submarkets yielded Class A average asking rental rates above \$30.00 psf, led by the Hudson Waterfront, Newark, Morristown, and the Morris Route 10/24 Corridor.

Quarterly demand reached the highest level since the third quarter of 2016 with 1.4 million square feet (msf) of new leases signed. This marked the fourth straight quarter in which quarterly new leasing activity exceeded 1.0 msf. Robust demand totals were recorded in Bergen County, Parsippany, Morris Route 10/24, and Newark while the Waterfront and Morristown both posted steady leasing volume. The total was fueled by transactions 50,000 sf and greater as the life science, retail/wholesale, educational service, and technology industries propelled the marketplace. The flight to quality for larger tenants continued this past quarter as most leases greater than 30,000 sf occurred within Class A office buildings. Conversely, 67.4% of the small business demand—leases less than 10,000 sf—were concentrated within Class B and C assets.

Outlook

The Northern New Jersey market continued to improve modestly at the start of 2019 as leasing activity remained strong in key submarkets. Expect leasing to sustain the current momentum throughout the next few quarters as there are some notable mid-sized and large transactions in the immediate pipeline. Small business transactions, the constant of the marketplace, will further account for much of the Class B deal volume. As a result of the aforementioned healthy demand, occupancy levels should rise in the coming months, specifically in the upgraded, modernized Class A office campuses in both the urban and suburban parts of the market. Meanwhile, rental rate growth is anticipated to increase, though at a slower rate, and will vary by submarket. The future of the state's incentive program will also play a key role in the market's future, specifically for larger corporations.

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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)** |
|----------------------------|--------------------|--------------------|--------------------|----------------------|---|---------------------------------|----------------------------|------------------|---|---|
| Bergen County | 25,843,764 | 203,606 | 3,772,572 | 15.4% | 147,910 | 147,910 | 322,483 | 360,000 | \$27.27 | \$29.37 |
| Essex County | 25,702,301 | 297,115 | 4,358,232 | 18.1% | -192,114 | -192,114 | 225,351 | 440,000 | \$28.53 | \$32.83 |
| Hudson County | 24,458,954 | 327,947 | 3,838,013 | 17.0% | -6,556 | -6,556 | 189,486 | 200,000 | \$43.60 | \$45.14 |
| Morris County | 27,867,137 | 970,866 | 5,638,733 | 23.7% | 18,222 | 18,222 | 603,113 | 0 | \$27.76 | \$30.94 |
| Passaic County | 5,251,761 | 77,569 | 682,266 | 14.5% | 33,571 | 33,571 | 78,288 | 0 | \$21.11 | N/A |
| NORTHERN NJ TOTALS | 109,123,917 | 1,877,103 | 18,289,816 | 18.5% | 1,033 | 1,033 | 1,418,721 | 1,000,000 | \$31.16 | \$35.82 |
| SELECTED SUBMARKETS | | | | | | | | | | |
| Hudson Waterfront | 21,186,018 | 272,311 | 3,479,557 | 17.7% | -51,832 | -51,832 | 161,893 | 110,000 | \$45.20 | \$45.75 |
| Newark | 14,484,985 | 67,213 | 2,377,515 | 16.9% | -99,020 | -99,020 | 136,265 | 400,000 | \$29.00 | \$34.70 |
| Parsippany | 12,305,238 | 782,305 | 2,767,834 | 28.9% | -2,362 | -2,362 | 208,140 | 0 | \$27.11 | \$30.27 |
| Route 10/24 Corridor | 8,492,020 | 123,559 | 1,643,813 | 20.8% | -188,854 | -188,854 | 282,709 | 0 | \$29.59 | \$32.68 |
| Essex Rt. 280 Corridor | 7,586,501 | 229,902 | 1,094,271 | 17.5% | -91,326 | -91,326 | 72,854 | 0 | \$26.78 | \$28.22 |
| Meadowlands | 6,530,057 | 98,079 | 846,115 | 14.5% | 80,821 | 80,821 | 86,078 | 90,000 | \$25.28 | \$28.57 |
| Morristown | 5,179,037 | 53,002 | 781,741 | 16.1% | 187,344 | 187,344 | 90,427 | 0 | \$28.31 | \$32.15 |

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

Key Lease Transactions Q1 2019

| PROPERTY | SF | TENANT | TRANSACTION TYPE | SUBMARKET |
|------------------------------------|---------|-----------------------|------------------|----------------------|
| 170 Park Avenue, Florham Park | 147,215 | Celularity | New Lease | Route 10/24 Corridor |
| 765 Broad Street, Newark | 104,409 | Newark Public Schools | Expansion | Newark |
| 2 Gatehall Drive, Parsippany | 55,893 | Ricoh | New Lease | Parsippany |
| 10 Waterview Boulevard, Parsippany | 53,967 | TIAA Bank | Renewal | Parsippany |

Key Sales Transactions Q1 2019

| PROPERTY | SF | SELLER/BUYER | PRICE / \$PSF | SUBMARKET |
|---|-----------|---|-----------------------|-------------------|
| Portfolio: 1, 2, & 4 Gateway Center, Newark | 1,698,381 | Taconic Capital Advisors / Onyx Equities JV | \$325,000,000 / \$191 | Newark |
| 570 Washington Boulevard, Jersey City | 415,000 | LeFrak / iStar Financial | \$170,000,000 / \$410 | Hudson Waterfront |
| 300 Kimball Drive, Parsippany | 408,681 | State Farm Mutual Automobile Insurance Company / Sovereign Partners | \$66,000,000 / \$161 | Parsippany |
| 9 Entin Road, Parsippany | 190,000 | JV Lincoln Property Corp/UBS Realty Advisors / American Equity Partners | \$16,250,000 / \$86 | Parsippany |

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