

Savills Studley Report

Northern New Jersey office sector

Q2 2017



SUMMARY

Market Highlights

LEASING REMAINS SUBPAR

Tenants have leased 10.3 msf in the four most recent quarters, falling just short of the long-term average of 10.4 msf per year.

AVAILABILITY UP SLIGHTLY

The region's overall availability rate inched up by 20 basis points to 23.6%, but has fallen by 100 basis points year-on-year. The Class A availability rate ticked up by 10 basis points to 24.1%, but has decreased by 70 basis points year-on-year.

RENTS FALL

Average asking rent for the region posted a 1.8% quarter-on-quarter decrease, falling to \$28.58. The Class A average rent dropped by 2.4% to \$29.48.

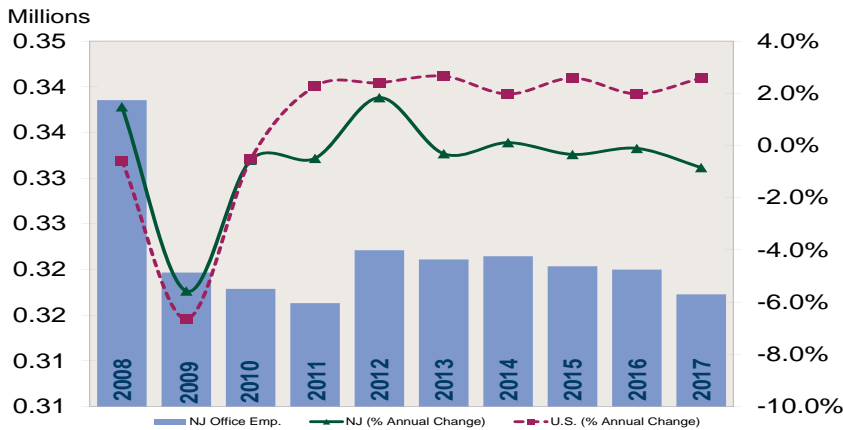
PROPERTY SALES DECREASE

Year-to-date office property sales totaled \$999 million – falling by 21.7% compared to the \$1.28 billion sold during the same period in 2016.

“Continuing the GROW NJ program is the key economic driver to retaining and growing employment and positive absorption of office supply.”

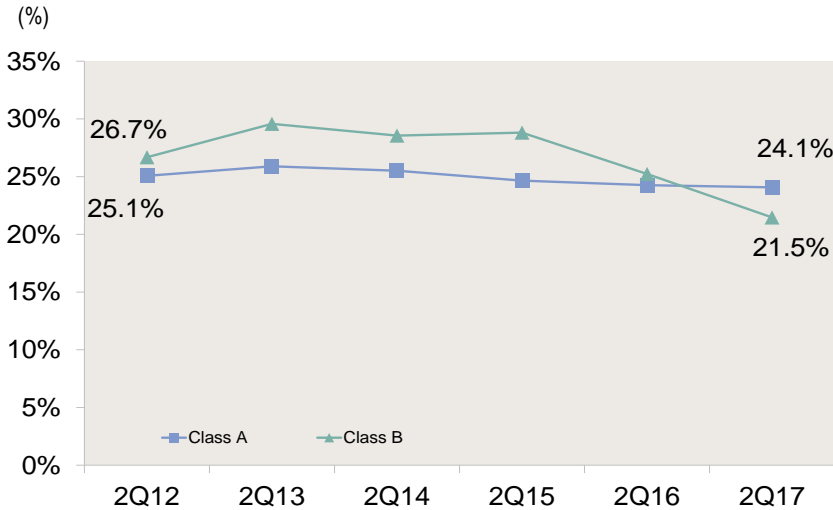
*Chris Marx,
Senior Vice President*

Office-Using Employment Trends

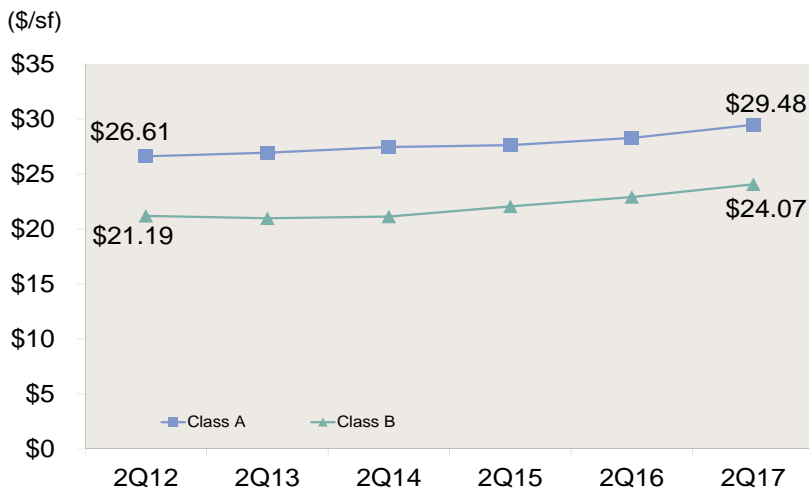


Source: Bureau of Labor Statistics

Availability Rate Trends



Asking Rent Trends



Suburban Locations Attracting Interest

Tenant preferences come and go in Northern New Jersey. For much of 2015 and 2016, buildings clustered along the Hudson Waterfront – particularly in Hoboken and Jersey City – captured the strongest demand, while activity in Newark and suburban locations was a bit more spotty. Over the last few quarters, tenants have been more active in top suburban office parks, as well as other areas such as Newark that were lagging in prior years. Tenants have shifted their geographical focus, but they are sticking to a few core demands. They continue to target amenity-laden properties with prime access to trains and major transportation routes. Their expectations for concessions also remain elevated.

Despite the increased demand for space in suburban locations and several larger leases in Newark, deal volume in the first six months of 2017 remained about 20.0% below the long-term market average. A decline in the number of larger leases (over 100,000 sf) is partially to blame.

Additionally, much of the relocation activity among Manhattan firms to Jersey City and Hoboken has already occurred. A few firms are looking at opportunities in Jersey City, but availability in Hudson Waterfront ended mid-year above 20.0% for the second consecutive quarter – availability was below 15.0% for most of prior few years. Sublet space has jumped in this submarket as well. As of mid-year, the entire region had 4.7 msf of sublet space available, a 26.1% jump from mid-year 2016.

Newark on the Radar Screen

More firms are considering options in Newark. Buildings surrounding Newark Penn Station have always offered a lot of convenience for commuters. More recently, the city has made some headway in terms of developing the 24/7 live/work setting that many employers prefer.

Edison Properties kicked off the redevelopment of Ironside Newark, a seven-story 460,000-sf office, retail development adjacent to Newark Penn station and Mulberry Commons Park. Earlier this year, Broadridge Financial Solutions announced a 156,466-sf lease at 2 Gateway Center in Newark. They will relocate from 2 Journal Square in Jersey City and stand to receive \$23 million in Grow New Jersey tax credits over a decade in the move. Some landlords

are still selling off their assets in Newark, though. Mack-Cali is placing its portion of One Newark Center – a 423,028-sf block on the sixth through 22nd floors on the market.

Tenants Looking at Monmouth County

Monmouth County is seeing an uptick in activity as the area surrounding Bell Works has captured some leasing. Santander Bank completed a 38,954 sf deal at 101 Crawford's Corner in Holmdel. This was the second straight quarter that the building signed a notable tenant.

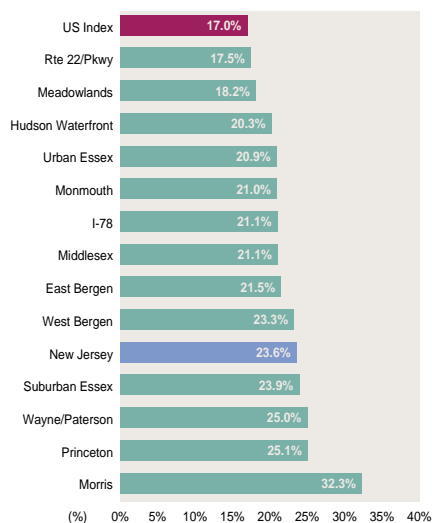
Red Bank has also signed several smaller and mid-sized tech tenants. A couple of small new buildings (teardowns/gut renos) will add options for tenants to consider in the heart of Red Bank. Metrovation is working on The Anderson Building at 200 Monmouth. The 40,000-sf property is just steps from the local commuter rail station and will deliver in 2018.

Developers undertaking much bigger projects continue to focus on mixed-use properties. They realize that the overall size and appetite of the office market has shrunk as the largest office tenants remain committed to consolidation and efficiency. In turn, many owners are shifting their focus to industrial or multi-family product. In Parsippany, plans for Mack-Cali's Campus in Parsippany are still up in the air. Roseland Properties (Mack-Cali's residential subsidiary) is converting 1633 Littleton into apartment buildings, speculation is growing that they will do the same with 2 Campus Drive, which has been vacant since Securitas moved to 9 Campus Drive. Continued consolidation in the pharmaceutical industry is also adding to availability. Daiichi Sankyo will relocate to its new facility in Basking Ridge (211 Mount Airy Road) vacating buildings in Parsippany and Edison.

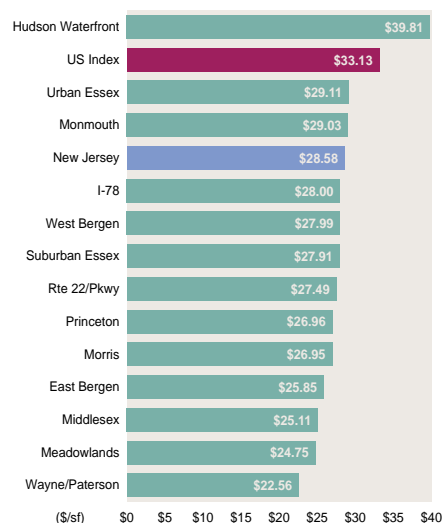
Renovate or Sell?

What was true early on in this cycle still remains true today – tenants will relocate to quality product in a good location with strong amenities and generous incentives. Tenants expect more in their buildings. They want in-building amenities they can access at anytime and without having to drive or walk a long distance. Savvy landlords continue to add amenities, services and conveniences ranging from catering and dry cleaning to car washing. Several owners have added shuttles to mass transit. A gym with a few bikes and machines will no longer

Availability Rate Comparison



Overall Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
AT&T, Inc	253,000	30 Knightsbridge Rd	Princeton
S&P Global	75,000	1 Independence Way	Princeton
Johnson & Johnson	58,870	300 Davidson Ave	Princeton
Vencore Labs	54,060	150 Mount Airy Rd	I-78
Vxchng Operating LLC	46,000	200 Meadowlands Pky	Meadowlands
Santander Bank, N.A.	38,954	101 Crawford's Corner Rd	Monmouth
Celgene Corporation	38,000	300 Connell Dr	I-78
Rising Pharmaceuticals, Inc.	29,756	250 Pehle Ave	West Bergen
Phillips Van Heusen	26,169	1150 Route 22 E	I-78
Norris McLaughlin & Marcus PA	16,444	400 Crossing Blvd	I-78

suffice, now buildings offer bike sharing and yoga classes. The most proactive landlords, those that undertook extensive renovations at their facilities are coming out in top in the competition for tenants.

Within the space they lease, companies are taking a long look at their workplace and they are creating environments where employees want to be. To the extent that owners load up their building with shared amenities, it frees up money for tenants to add unique features that reinforce company culture in their own space. Part of the recipe for success for some owners continues to be very generous concessions. Some landlords have been willing to fund very extensive build-outs, just to avoid losing a key tenant.

New ownership generally sets the stage for property renovations. Local investors that are familiar with the market remain active,

but others priced out of the top markets, or in search of higher yields are considering suburban assets. Several Manhattan and foreign investors - such as Singapore's Manulife - have recently made acquisitions in suburban New Jersey as they have tired of sub-5.0% cap rates in the city.

Looking Forward

The looming gubernatorial election is causing some consternation about a wide variety of items on the legislative agenda. Topping concerns in commercial real estate is the fate of the Grow New Jersey tax credit program. No one expects the next governor to do away with the program entirely, but even a slight modification in how benefits are granted would substantially reduce the motivation of companies based in other states to move to New Jersey, and could put the brakes on the movement of businesses within New Jersey.

Map	Submarket	Total SF (1000's)	Leasing Activity Last 12 Months	Available SF		Availability Rate			Asking Remts Per SF			
				This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. (1)	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
1	East Bergen	6,124	507	1,318	-2.0%	1,395	21.5%	-0.4%	22.5%	\$25.85	-4.9%	\$28.00
	East Bergen - Class A	5,096	370	1,038	-9.4%	1,180	20.4%	-2.1%	23.1%	\$26.26	-5.4%	\$28.46
2	West Bergen	10,304	697	2,397	9.5%	2,778	23.3%	2.0%	24.7%	\$27.99	-0.2%	\$26.53
	West Bergen - Class A	5,882	501	1,564	10.2%	1,582	26.6%	2.5%	26.2%	\$28.26	-2.2%	\$28.58
3	Wayne/Paterson	4,601	273	1,152	-1.9%	1,181	25.0%	-0.5%	25.5%	\$22.56	0.9%	\$21.26
	Wayne/Paterson - Class A	3,190	212	913	-7.8%	895	28.6%	-2.4%	28.1%	\$23.37	2.9%	\$21.78
4	Meadowlands	5,923	383	1,076	-9.1%	1,424	18.2%	-1.8%	23.2%	\$24.75	-5.1%	\$26.45
	Meadowlands - Class A	4,570	328	872	-7.9%	1,207	19.1%	-1.6%	25.1%	\$27.68	1.9%	\$27.53
5	Hudson Waterfront	19,545	1,412	3,960	-0.2%	2,607	20.3%	0.0%	15.8%	\$39.81	-6.7%	\$40.60
	Hudson Waterfront - Class A	18,482	1,391	3,864	-0.7%	2,501	20.9%	-0.2%	16.3%	\$40.07	-6.9%	\$41.01
6	Urban Essex	12,549	1,017	2,627	0.5%	2,689	20.9%	0.1%	21.5%	\$29.11	-0.2%	\$28.80
	Urban Essex - Class A	9,260	848	2,014	-6.7%	2,191	21.7%	-1.6%	24.0%	\$29.95	-1.9%	\$30.35
7	Suburban Essex	5,822	654	1,394	-11.5%	1,578	23.9%	-3.1%	25.6%	\$27.91	-2.5%	\$28.19
	Suburban Essex - Class A	4,916	628	1,226	-11.6%	1,500	24.9%	-3.3%	28.6%	\$28.14	-3.7%	\$28.33
8	Morris	25,415	1,772	8,219	2.1%	8,385	32.3%	0.7%	33.3%	\$26.95	0.5%	\$26.45
	Morris - Class A	20,617	1,595	6,563	2.6%	6,665	31.8%	0.8%	33.1%	\$28.23	2.2%	\$27.77
9	I-78	14,335	1,528	3,021	-7.2%	3,329	21.1%	-1.6%	24.0%	\$28.00	-1.8%	\$25.16
	I-78 - Class A	13,156	1,522	2,891	-7.6%	3,194	22.0%	-1.8%	25.2%	\$28.49	-0.7%	\$25.23
10	Route 22/Parkway Corridor	1,752	77	307	-26.7%	339	17.5%	-6.4%	20.2%	\$27.49	-1.1%	\$27.59
	Route 22/Parkway Corridor - Class A	1,160	63	244	-30.7%	312	21.1%	-9.4%	28.1%	\$28.09	0.1%	\$27.85
11	Middlesex	18,060	750	3,815	-5.0%	4,683	21.1%	-1.1%	25.0%	\$25.11	-4.9%	\$24.34
	Middlesex - Class A	15,549	634	3,429	-3.9%	4,093	22.1%	-0.9%	25.4%	\$25.94	-5.3%	\$25.17
12	Monmouth	6,071	881	1,273	0.3%	1,456	21.0%	0.1%	23.2%	\$29.03	3.8%	\$25.68
	Monmouth - Class A	4,178	131	730	4.6%	382	17.5%	0.8%	10.7%	\$31.24	1.6%	\$26.99
13	Princeton	15,487	403	3,889	23.0%	4,071	25.1%	4.7%	25.8%	\$26.96	-4.0%	\$26.81
	Princeton - Class A	13,242	398	3,370	32.4%	3,359	25.4%	6.2%	25.2%	\$27.82	-4.1%	\$27.07
1-13	New Jersey Total	145,987	10,355	34,447	0.7%	35,916	23.6%	0.2%	24.6%	\$28.58	-1.8%	\$27.25
	New Jersey Total - Class A	119,298	8,621	28,717	0.3%	29,062	24.1%	0.1%	24.8%	\$29.48	-2.4%	\$28.28

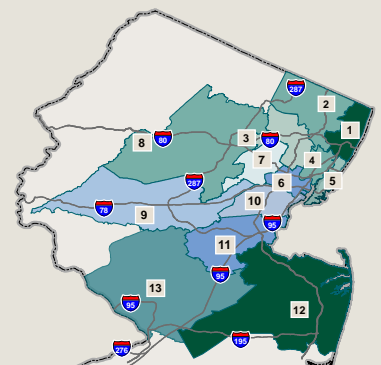
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(1) Percentage point change for availability rates.
 Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.
 Statistics are calculated using both direct and sublease information.
 Short-term sublet spaces (terms under two years) were excluded.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.
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