

MARKETBEAT

Central New Jersey

Office Q4 2018



CENTRAL NEW JERSEY OFFICE

Economic Indicators

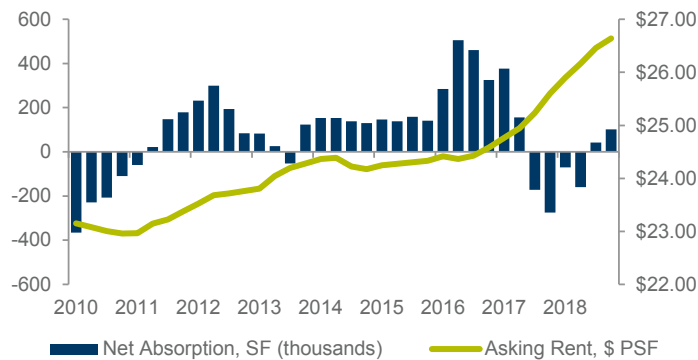
	Q4 17	Q4 18	12-Month Forecast
NJ Employment	4.2M	4.2M	▲
NJ Unemployment	4.7%	4.0%	■
U.S. Unemployment	4.1%	3.7%	▼

Market Indicators (Overall, All Classes)

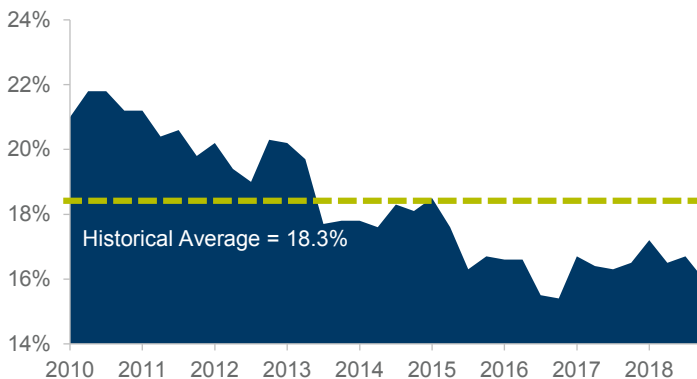
	Q4 17	Q4 18	12-Month Forecast
Vacancy	16.5%	16.0%	▲
YTD Net Absorption (sf)	-922k	408k	▼
Under Construction (sf)	0	0	■
Average Asking Rent*	\$25.75	\$26.71	▲

*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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NORTHERN NEW JERSEY OFFICE

Economic Indicators

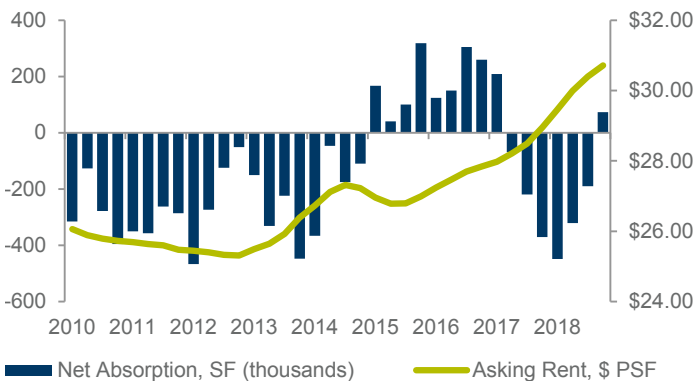
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Market Indicators (Overall, All Classes)

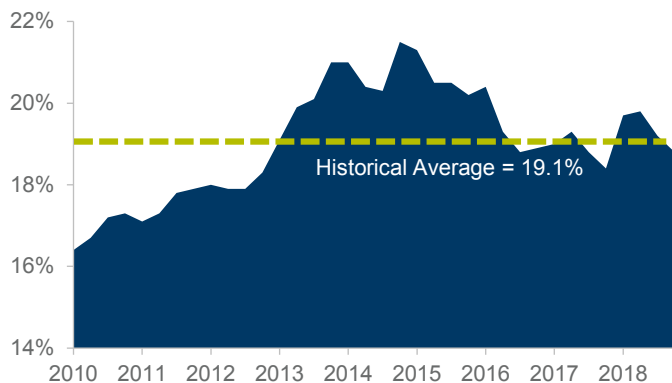
	Q4 17	Q4 18	12-Month Forecast
Vacancy	18.4%	18.8%	▼
YTD Net Absorption (sf)	-1.5M	292k	▲
Under Construction (sf)	890k	1.0M	▼
Average Asking Rent*	\$29.84	\$31.09	■

*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

Leasing activity remained healthy in Northern New Jersey during the final quarter of 2018, fueling the market's second consecutive quarter of positive net absorption. As a result, Northern New Jersey yielded 292,185 square feet (sf) of net occupancy gains in 2018. Furthermore, overall vacancy declined 100 basis points (bps) in the second half of 2018 to 18.8% and stands slightly above its year-end 2017 level. While gains were modest in many submarkets, Bergen County and the Hudson Waterfront each recorded more than 155,000 sf of space gains for the quarter, resulting in quarterly vacancy declines of 70 bps and 10 bps respectively. Conversely, Parsippany was marred by the 186,000-sf sublease placed on the market by Wyndham Worldwide on Sylvan Avenue, which hindered occupancy improvements in the submarket. Only a few large blocks of space entered the marketplace during the fourth quarter in Northern New Jersey, which helped to keep the market's vacancy rate from rising.

Northern New Jersey posted its third straight quarter of 1.0 million square feet (msf) of new leasing activity. Annual demand finished 15.4% ahead of the 2017 figure as large transactions greater than 100,000 sf propelled the total—six new leases of that size were inked while another four renewals were signed in 2018. The largest deal of the fourth quarter was in the Hudson Waterfront where TD Ameritrade relocated to 70 Hudson Street for 207,000 sf. This lease, along with expansions by Sumitomo Mitsui Banking and First Data Corporation, yielded the submarket's best quarter of leasing since the third quarter of 2016. Demand also remained steady in areas such as Newark, Bergen County, Parsippany, and Morristown as the year came to a close.

Asking rents for Class A space continued to rise throughout 2018, up 4.7% since 2017. At \$35.95 per square foot (psf), the Class A average rental rate finished at a record-high due in large part to submarkets such as the Waterfront, Newark, and much of Morris County priced at a premium over the remainder of the Class A market.

Outlook

While occupancy levels rebounded in some areas in the latter half of 2018, other submarkets posted vacancy rate increases as large corporate dispositions outpaced new leasing activity. However, most market segments in Northern New Jersey will likely continue to stabilize as leasing activity is projected to remain healthy. Highly amenitized and upgraded assets will continue to outperform outdated office buildings as corporations compete for highly skilled workers in the currently tight labor market. These properties will continue to boast higher occupancy levels and charge a premium for space above the rest of the suburban market, while the repurposing of older, obsolete office stock should also keep the market's office vacancy rate stable in the near future. Demand should remain steady as 2019 gets underway, as some notable transactions are anticipated to close during the first quarter and touring activity by mid-sized and large corporations remains healthy.

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Bergen County	25,964,970	242,725	3,906,752	16.0%	182,977	180,534	1,126,034	360,000	\$26.81	\$29.15
Essex County	25,554,895	305,421	4,229,188	17.7%	77,134	-209,407	812,151	440,000	\$28.79	\$33.85
Hudson County	24,631,342	222,592	4,057,652	17.4%	145,604	-229,680	1,093,419	200,000	\$43.36	\$45.12
Morris County	27,847,137	967,339	5,783,206	24.2%	-34,042	409,091	1,183,905	0	\$27.88	\$30.70
Passaic County	4,829,761	77,569	687,616	15.8%	-1,250	141,647	104,838	0	\$21.15	N/A
NORTHERN NJ TOTALS	108,828,105	1,815,646	18,664,414	18.8%	370,423	292,185	4,320,347	1,000,000	\$31.09	\$35.95
SELECTED SUBMARKETS										
Hudson Waterfront	21,358,406	140,035	3,661,173	17.8%	155,481	-228,060	918,806	110,000	\$45.02	\$45.71
Newark	14,337,579	97,129	2,261,841	16.5%	45,347	-117,641	320,313	400,000	\$28.83	\$35.35
Parsippany	12,305,238	700,744	2,858,214	28.9%	-128,981	106,566	488,205	0	\$27.54	\$30.20
Route 10/24 Corridor	8,472,020	190,900	1,492,060	19.9%	36,204	209,264	232,991	0	\$28.98	\$32.75
Essex Rt. 280 Corridor	7,586,501	208,292	1,087,770	17.1%	30,490	-136,152	152,156	0	\$28.13	\$30.70
Meadowlands	6,651,263	125,000	1,028,315	17.3%	-25,401	-16,687	279,031	90,000	\$24.80	\$28.23
Morristown	5,179,037	63,695	963,885	19.8%	35,684	146,752	417,200	0	\$28.71	\$31.01

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

Key Lease Transactions Q4 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
70 Hudson Street, Jersey City	207,296	TD Ameritrade	New Lease	Hudson Waterfront
Harborside Financial Center II, Jersey City	110,000	Sumitomo Mitsui Banking Corporation	Renewal/Expansion	Hudson Waterfront
199 Pomeroy Road, Parsippany	85,000	PrimeWork	New Lease	Parsippany
101 Hudson Street, Jersey City	80,000	First Data Corporation	Renewal/Expansion	Hudson Waterfront

Key Sales Transactions Q4 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Portfolio: 115 & 117 West Century Road, Paramus	305,017	Onyx Equities/Premium Capital Resources	\$74,000,000/\$243	Route 4 East Corridor
6 Sylvan Way, Parsippany	212,535	Gramercy Property Trust/The Blackstone Group	N/A	Parsippany
100 Tice Boulevard, Woodcliff Lake	209,000	Gramercy Property Trust/The Blackstone Group	N/A	Route 17 N/GSP North
1 Harmon Plaza, Secaucus	187,954	PCCP LLC/ZI One Harmon Plaza, LLC	\$34,200,000/\$182	Meadowlands

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