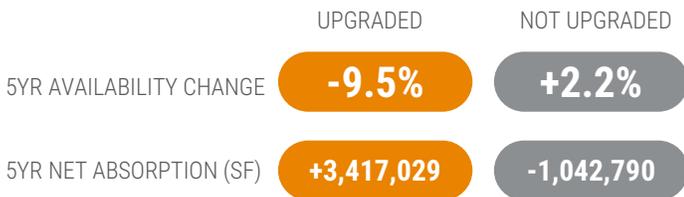


NEW JERSEY OFFICE TRENDS

UPGRADES LEAD TO LEASING

Quantifying the Benefits of Renovation Programs

Newly compiled data provides solid evidence that popular common area upgrades are paying off for landlords. The average office building in Northern/Central New Jersey is 33 years old and in need of modernization. Since 2014, more than one quarter of the inventory* has been renovated, which is helping to attract tenants and bolster rents.



An analysis of office buildings that have been substantially upgraded over the past five years shows significantly stronger absorption as well as steep availability declines among more recently renovated properties. With overall availability hovering around 23%, tenants in the market have numerous choices when shopping for new space and are gravitating toward higher-quality properties. These buildings are typically more modern in appearance and offer amenities that enhance the workplace experience. Atrium, lobby and restroom renovations are standard upgrades that can lure companies away from outdated spaces. Amenities such as fitness centers, lounge areas, conference rooms and cafeterias create a dynamic workplace that helps office users compete for young talent.

Recently upgraded assets have tallied 3.4 million square feet of positive net absorption over the past five years. By comparison, net absorption has been negative over the same period for assets that were not renovated. Asking rents at renovated properties average \$31.63/SF and have grown by 19.6% over the past five years compared with a 14.5% growth rate over the same period for properties that were not upgraded. However, the largest benefit for landlords is in terms of staying well-leased. The availability rate at upgraded buildings has declined by 9.5% over the past five years, whereas it has increased by 2.2% among properties that were not improved.

MOVING ON UP: TYPICAL RENOVATION COMPONENTS

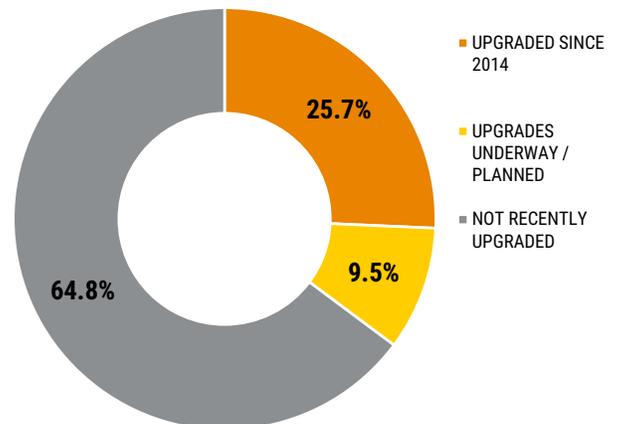
 ATRIUM/LOBBY	 ELEVATOR CABS
 RESTROOMS	 TENANT LOUNGES
 CAFÉ/FOOD SERVICE	 OUTDOOR RECREATION
 GYM/FITNESS CENTER	 OUTDOOR SEATING
 HVAC, MECHANICAL	 CONFERENCE CENTER

	Inventory (SF)*	5YR Availability Change (%)	5YR Net Absorption (SF)	Avg. Asking Rent (\$/SF)	5YR Asking Rent Growth (%)
UPGRADED SINCE 2014	31.4M	-9.5%	3,417,029	\$31.63	19.6%
NOT RECENTLY UPGRADED	91.0M	2.2%	-1,042,790	\$30.73	14.5%

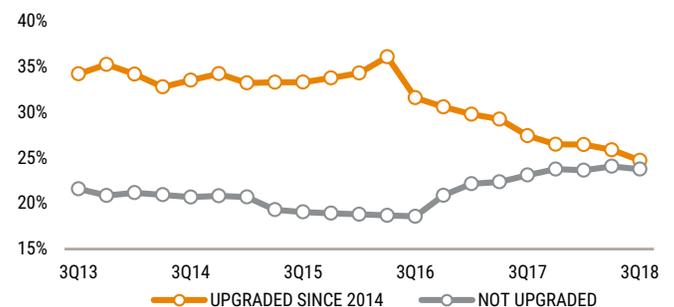
Nearly half of the new leasing activity year-to-date has taken place at upgraded buildings, including 400 Interpace Parkway in Parsippany, where Teva Pharmaceuticals took 345,488 square feet. The property, known as MCCBLUE, had undergone a capital improvement program that included adding a new fitness center, atrium and cafeteria as well as making mechanical upgrades. Other notable recent relocations incentivized by renovations include Insmet's lease for 117,000 square feet at 700 Route 202/206 in Bridgewater and Plymouth Rock's 129,600 square-foot deal at 581 Main Street in Woodbridge. Leasing activity at upgraded buildings is set to keep pace, as 11.7 million square feet of additional renovation projects are either currently underway or scheduled to commence soon. These include improvements at Morris Corporate Center IV in Parsippany, which is being rebranded as LATITUDE. Upon completion, the property will feature multiple dining and fitness options, courtyards and a new glass atrium joining the east and west buildings that will feature a bicoastal theme.

As core components such as fitness centers, cafeterias and lobby updates become increasingly common, landlords will need to expand their amenity offerings to stay competitive. Large standalone amenity buildings and athletic resorts, such as the 130,000-square-foot Life Time facility being built at Somerset Corporate Center in Bridgewater, represent the next phase of this trend. Taking the tenant experience to an extreme, Bell Works in Holmdel and ON3 in Nutley were once vacant office parks that are now being completely transformed into miniature cities with opportunities to live, work and play on or near campus. Looking ahead, tenants and landlords can expect more of these developments as the amenities arms race accelerates.

SHARE OF INVENTORY UPGRADED



HISTORICAL AVAILABILITY COMPARISON



KEY TAKEAWAYS

For Tenants

- › There is a growing number of options for tenants at newly upgraded facilities with amenities.
- › Leasing amenity-rich space can help companies recruit employees, especially millennials.

For Landlords

- › Common area renovations are an effective strategy to attract and retain tenants.
- › As more inventory is upgraded, owners that offer unique features and uncommon amenities can gain a competitive advantage.

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Newmark Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Knight Frank Research Reports are available at www.ngkf.com/research

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