



# Northern New Jersey Office Market

## Demand Weakens in 2020

The Northern New Jersey office market finished the year with a fourth consecutive quarter of negative net absorption as the economic downturn and widespread remote work brought on by the pandemic has weakened tenant demand. Availability now stands at a record 25.0%, up from 21.7% at the end of 2019. Asking rents have not yet seen a broad correction, declining slightly from \$29.97/SF to \$29.87/SF over the past year. Despite adverse conditions, certain significant transactions continued to close during the past year and quarter, particularly among the resilient life sciences and healthcare sectors.

### Sublease Space Hits Market

More than 2.1 million square feet of new sublet space was listed during 2020, pushing the total sublet inventory to 7.6 million square feet. The largest of these recent listings—674,000 square feet—is Sanofi’s sublet at 55 Corporate Drive in Bridgewater, which came on the market in April. During the fourth quarter, additional sublets became available from Realogy at 175 Park Avenue in Madison and Dun & Bradstreet at 103 JFK Parkway in Short Hills, which totaled 180,000 and 123,000 square feet, respectively. Homebridge and Crum & Forster also listed notable sublet spaces in Metropark and Morristown during the quarter.

### Current Conditions

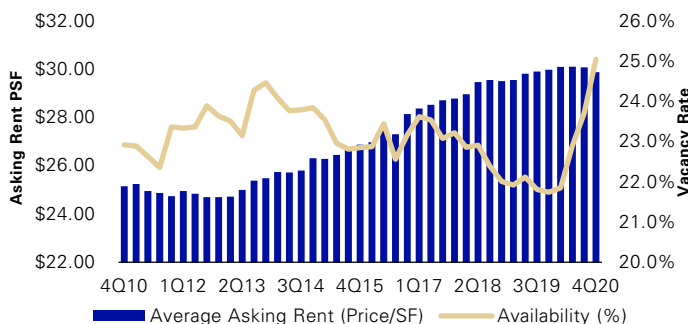
- During 2020, the market experienced four quarters of negative net absorption totaling 5.9 million square feet.
- Availability now stands at a record 25.0%, increasing from 21.7% from last year in part due to newly-listed sublets.
- Significant leasing and sales transactions continued to transpire despite weaker demand, particularly in the resilient life sciences and healthcare sectors.

### Market Summary

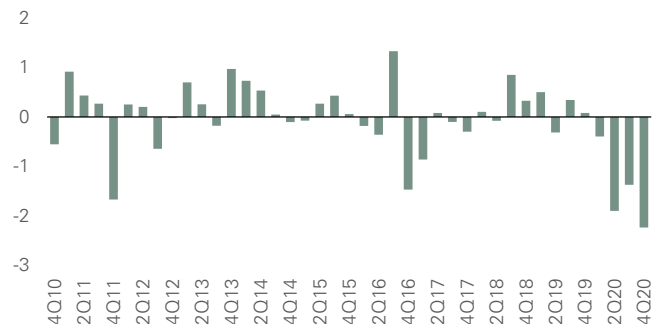
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	168.2M	168.1M	168.4M	↔
Availability Rate	25.0%	23.7%	21.7%	↑
Quarterly Net Absorption (SF)	-2,228,716	-1,369,501	80,309	↔
Average Asking Rent / SF	\$29.87	\$30.07	\$29.97	↓
Under Construction (SF)	427,000	415,000	415,000	↔
Deliveries	0	0	45,200	↔

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION



## RESEARCH Q4 2020

More than 3.3 million square feet of direct space also came on the market over the past 12 months, contributing to the rising overall availability rate. This figure includes 860,000 square feet listed at 3 Merck Drive in Whitehouse Station during the fourth quarter. The iconic former Merck headquarters had been purchased in 2018 by UNICOM. Also, 154,000 square feet became available at 100 Kimball Drive in Parsippany, the result of Deloitte relocating to Morristown. The global accounting firm will anchor M Station, a mixed-use development rising near the Morristown train station. Another notable space on the market is 100 Summit Avenue in Montvale. The entire 127,000-square-foot building home to Western Union recently became available.

### Leasing Continues at Slower Pace

Major leases continued to close during 2020, despite the challenging environment. Total deal volume was significantly lower, summing to 5.9 million square feet for the year compared with 8.0 million square feet in 2019.

Four out of five of the largest new leases of 2020 were completed by life sciences or healthcare companies, including Eisai, Hackensack Meridian Health and Organon. These industries experienced fewer negative impacts from the pandemic. The largest deal of the fourth quarter was with Bristol-Myers Squibb, which leased 118,000 square feet at 9 Roszel Road in West Windsor. The building's owner, Manulife Investment Management, is planning a renovation, including a lobby redesign and updated cafeteria. Another life science company taking space over the past quarter is TCG GreenChem, which leased 55,000 square feet at 701 Princeton South in Ewing.

Financial services firms also executed some major deals this year and quarter. In July, AIG leased 228,000 square feet at 30 Hudson Street in Jersey City. During the past quarter, Provident Bank leased a total of 84,000 square feet in two transactions at 111 Wood Avenue South and 10 Woodbridge Center Drive, both located in the Metropark/GSP submarket. Metal roofing and gutter company Englert signed a lease for 42,000 square feet at 1 Tower Center in East Brunswick. The property, which was acquired by American Equity Partners in 2019, is being upgraded with revamped common areas and a new tenant amenities center on the 15th floor.

### Capital Market Activity

During 2020, \$3.0 billion of office transactions were recorded, up from \$2.7 billion in 2019. Much of this activity was underway before the pandemic and nearly half of the 2020 sales volume took place during the first quarter when some outsized deals closed, such as the \$372.0-million sale of 545 Washington Boulevard in Jersey City. Fourth-quarter 2020 witnessed just under \$500 million in sales, which included Alexander Property Holdings' acquisition of a three-building portfolio in Bridgewater and Lebanon from Piedmont Office Realty Trust for \$130.0 million. Another recent notable transaction involved a purchase by the anchor tenant, Plymouth Rock Assurance, of 581 Main Street in Woodbridge from Mack-Cali Realty Corp.

The Northern New Jersey office market experienced an inflection point during 2020 with an abrupt slowdown in leasing and rising availability. Looking ahead, the vaccine rollout, along with new progress on state incentives, gives reasons for optimism.

### Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
Bristol-Myers Squibb	9 Roszel Road	Princeton Area	Direct Lease	118,110
Provident Bank	111 Wood / 10 Woodbridge	Metropark/GSP	Direct Lease	84,000
Hackensack Meridian	ON3	Route 46/Wayne	Direct Lease	80,000
Englert Inc	1 Tower Center Boulevard	Route 18/8A Middlesex	Direct Lease	41,768
Snow Joe	221 River Street	Hudson Waterfront	Sublease	40,000

### Select Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
200 & 400 Crossing Boulevard 600 Corporate Drive	Somerset/I-78 & Hunterdon I-78	\$130,000,000	\$176	738,637
581 Main Street	Metropark/GSP	\$61,000,000	\$300	203,335
85 Challenger Road	Bergen East	\$59,700,000	\$256	233,505
44 Whippany Road	Morristown Area	\$50,000,000	\$216	231,985

## RESEARCH Q4 2020

### Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)
<b>Northern NJ</b>	<b>99,350,615</b>	<b>427,000</b>	<b>24.9%</b>	<b>-1,030,466</b>	<b>-2,947,624</b>	<b>\$35.18</b>	<b>\$24.26</b>
Bergen Central	9,290,591	0	20.2%	-139,614	-391,859	\$32.28	\$24.32
Bergen East	4,863,951	0	18.5%	-6,830	-164,371	\$32.56	\$27.27
Bergen North	5,121,654	52,000	37.3%	-196,329	-606,753	\$27.52	\$22.51
Essex West/I-280	4,492,158	0	28.0%	-15,278	-32,967	\$27.07	\$24.36
Hudson Waterfront	21,914,215	125,000	20.8%	11,215	-528,928	\$44.61	\$41.62
Meadowlands	5,642,425	250,000	27.6%	-14,559	-123,294	\$31.21	\$24.27
Morris West/I-80	1,451,078	0	21.2%	-5,241	-22,271	\$24.79	\$18.61
Morristown Area	11,655,884	0	23.8%	-263,748	-652,287	\$33.29	\$24.93
Newark	12,480,029	0	23.6%	51,805	64,017	\$34.93	\$24.86
Parsippany/Route 10	12,885,085	0	32.9%	-269,055	-426,836	\$31.37	\$23.00
Route 46/Wayne	7,758,521	0	24.0%	-47,587	143,313	\$25.54	\$20.82
Short Hills/Route 24	1,795,024	0	29.0%	-135,245	-205,388	\$49.91	\$35.56
<b>Central NJ</b>	<b>68,826,839</b>	<b>0</b>	<b>25.3%</b>	<b>-1,198,250</b>	<b>-2,938,930</b>	<b>\$30.87</b>	<b>\$23.15</b>
Hunterdon/I-78	2,610,155	0	49.2%	-861,405	-832,631	\$20.00	\$17.82
MetroPark/GSP	6,150,359	0	18.5%	-18,547	65,612	\$33.76	\$29.58
Monmouth	10,292,815	0	20.5%	-127,095	-287,966	\$31.53	\$21.84
Piscataway/I-287 South	9,479,017	0	28.3%	-170,868	-210,210	\$22.57	\$19.67
Princeton Area	17,799,369	0	21.2%	38,505	-180,454	\$32.63	\$24.12
Route 18/8A Middlesex	2,864,079	0	19.2%	43,520	-39,643	\$30.61	\$26.20
Somerset/I-78	16,526,122	0	31.5%	-122,620	-1,324,048	\$32.15	\$23.81
Union Area	3,104,923	0	21.2%	20,260	-129,590	\$31.61	\$25.20
<b>Northern/Central NJ</b>	<b>168,177,454</b>	<b>427,000</b>	<b>25.0%</b>	<b>-2,228,716</b>	<b>-5,886,554</b>	<b>\$33.70</b>	<b>\$23.75</b>

## RESEARCH Q4 2020

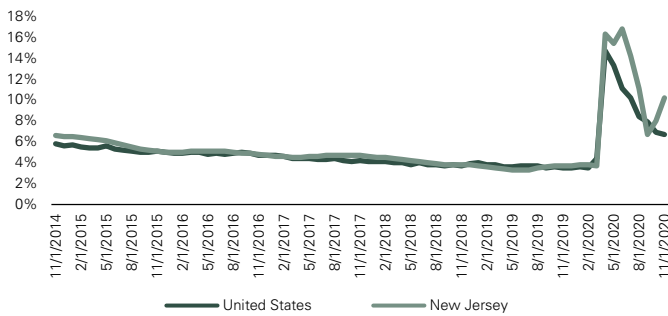
### Outlook Improves with Incentives Program

New Jersey has now regained a total of 485,700 jobs in the six months since April, or about 58% of the jobs lost due to the pandemic and measures taken in response to it. The most recent November unemployment increases by 2.2 percentage points to 10.2% from the previous month, primarily due to individuals reentering the labor force. Of relevance to the office market, employment in the professional and business services sector remains down 8.7% compared to one year ago. Financial services is faring better and has declined less than 1.0% over the last 12 months.

In December, the state legislature passed a bill to replace the expired Grow NJ incentives. The new program, called Emerge, will offer awards targeted at companies relocating jobs to the state and should provide a boost for office demand.

### Unemployment Rate

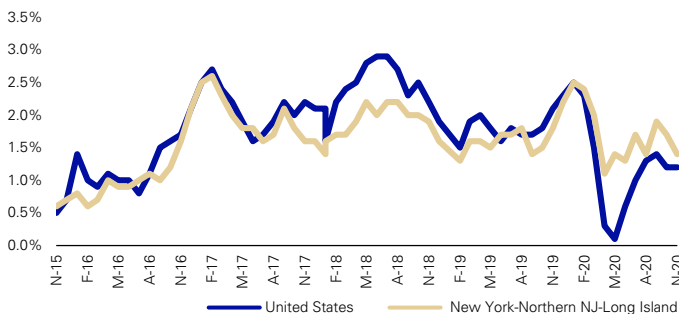
SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, NJDLWD

### Consumer Price Index (CPI)

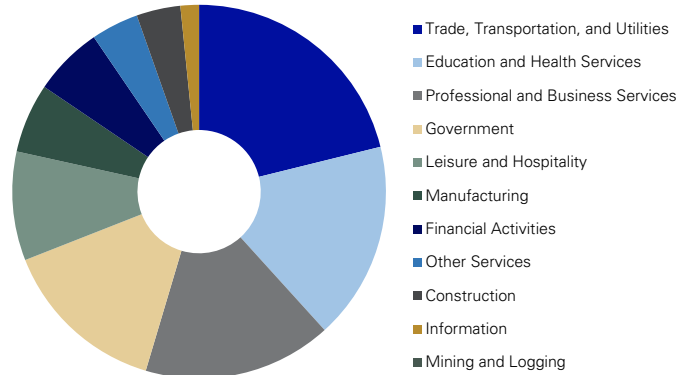
ALL ITEMS, 12-MO. % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

### Employment By Industry

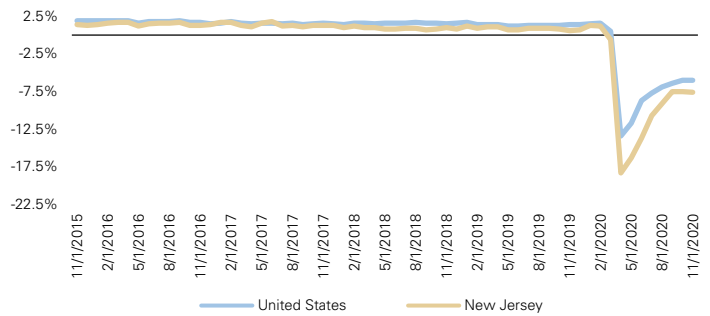
NEW JERSEY, ANNUAL AVERAGE 2019



Source: U.S. Bureau of Labor Statistics

### Payroll Employment

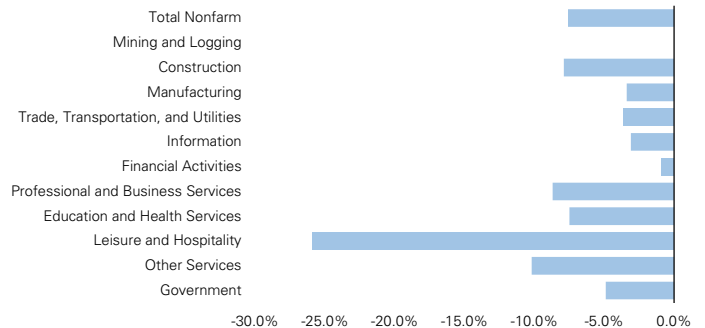
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MO. % CHANGE



Source: U.S. Bureau of Labor Statistics

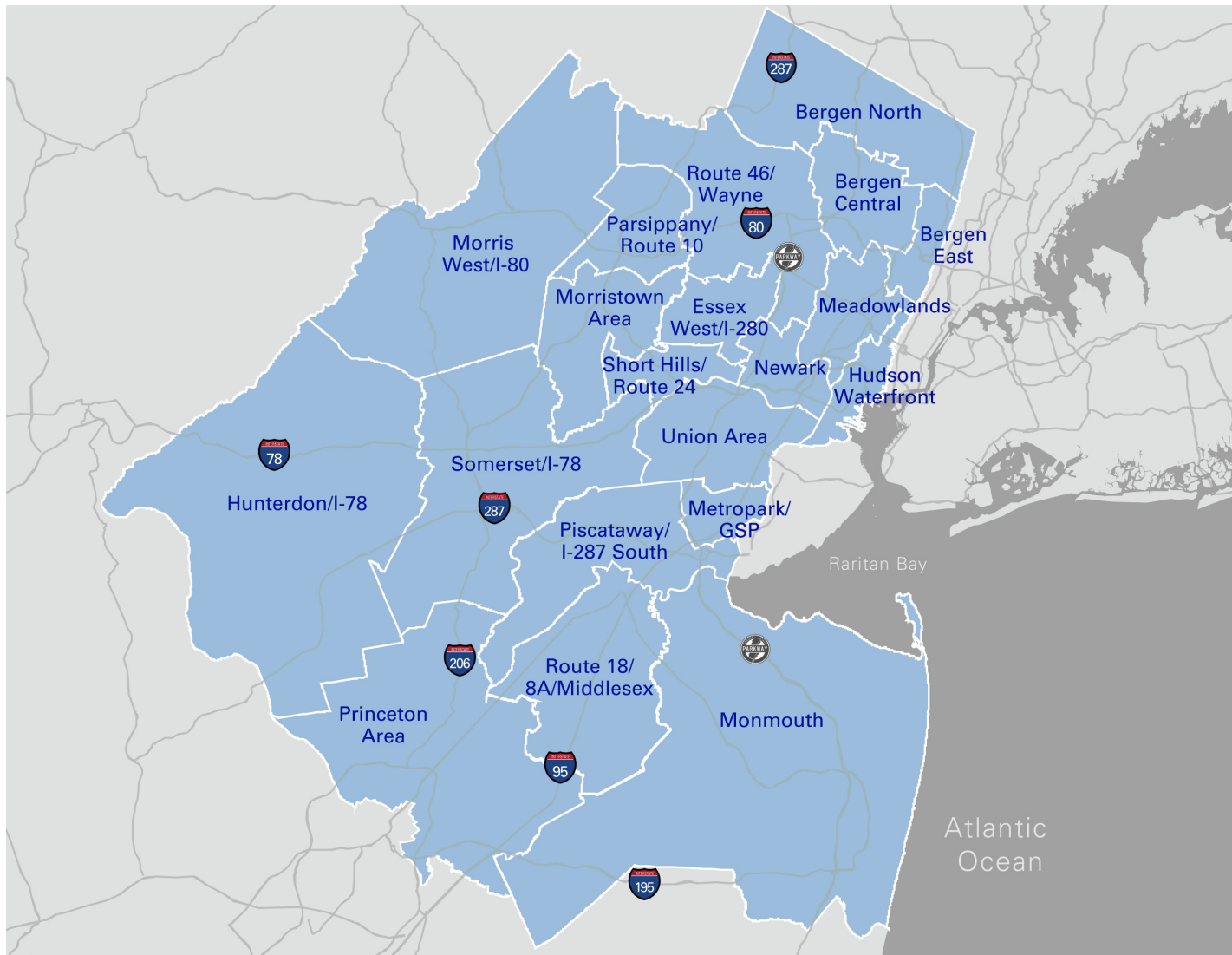
### Employment Growth By Industry

NJ, NOV 2020, 12-MO. % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Northern NJ Office Submarkets



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