NEW JERSEY

EXECUTIVE SUMMARY

- The largest hurdle for New Jersey real estate remains the high cost of doing business in the state coupled with political uncertainty.
- New Jersey real estate market is especially vulnerable to increased trade tension due to its reliance on the ports.
- A new wave of private owners might provide desperately needed capital improvements to an aging office stock.
- Leasing activity in the existing industrial market may drop, due to lack of inventory, however, demand remains strong in new construction.

The New Jersey market has always been driven by its proximity to New York City as well as other business centers such as Philadelphia, Boston, and Washington, DC. This proximity helped to establish the New Jersey office market in the past and now drives its industrial market. The greatest changes the market faces are the high cost of doing business in the state as well as uncertainty in local and national politics and policy.

The New Jersey economy on the surface has looked promising over the past year. Like the rest of the country, the Garden State has seen the unemployment rate drop, while the job growth rate has remained strong. Over the course of 2019, the state passed numerous bills to help improve the lives of workers with paid sick leave, expansion of the "New Jersey Family Leave Act", and an increase in the minimum wage. New Jersey also passed laws to improve the redevelopment process with the passage of the "State Remediation Reform Act", "New Jersey Land Bank Law", and an amendment to the "Local Redevelopment and Housing Law". These new laws will hopefully encourage workers to stay in New Jersey as well as spur on further development in the state respectively. However, there is a dark cloud hovering over the New Jersey economy and more particularly the real estate market; the uncertainty of the state's tax incentive program.

The office market has been challenged over the past few years by an aging stock coupled with new-age tenants who are looking for a heavily amenitized space at a higher employee per sf ratio. A recent trend that has occurred over the past few years is an increase in institutional owners leaving the New Jersey office market. These owners have been replaced by smaller private investors who have been able to purchase properties at a low basis. This has allowed the new owners to upgrade their property without having to raise the rent. Moving forward, we expect this new class of owners to reinvest and upgrade their properties. We also expect there to be a drop in vacancy rate as more obsolete properties are removed from the inventory as they get repositioned into industrial or multi-family properties.

The apple of the New Jersey real estate market's eye continues to be the industrial market. The market's central location along I-95 and proximity to the ports continues to drive the market into unprecedented levels for both rents and vacancy rates. Users' appetite to be in New Jersey has become so great that they are even looking at spaces not along I-95 as evidenced by Uniqlo's recent lease in Philipsburg. As we look forward to 2020, we expect rent growth to continue to slow, as the high rents should be monitored to determine if they are starting to price tenants out of the market, vacancy rates to remain stable, and absorption to fall, as the lack of available space will cause a slowdown in leasing.

With the growth of e-commerce, the name of the game in retail has been experiential. This monumental shift was highlighted this year with the opening of American Dream, the new mega-mall owned by Triple Five, the owners of Mall of America and the West Edmonton Mall. The new mall located in the shadow of MetLife Stadium (home to the New York Giants and Jets) has a water park, ice rink, theme park, and an indoor ski slope, in addition to traditional retail. The entire market will be keeping a close eye on how American Dream performs and its effect on other retail both in New York and New Jersey.

KEY MARKET METRICS – 2020 EXPECTATIONS

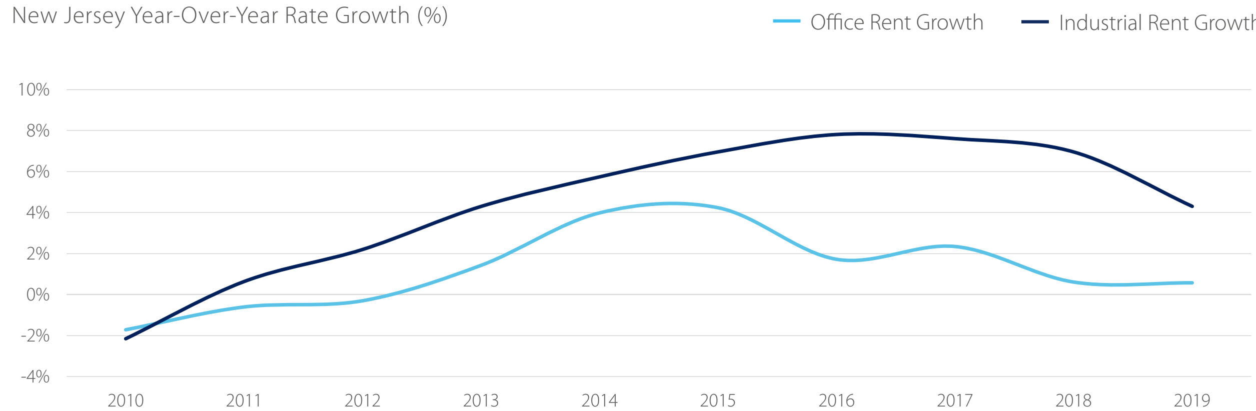
Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑	↓	↑
Vacant Space	↓	↑	→
Construction Levels	→	↓	↑↑↑
Leasing Volume	→	↓	↑↑↑
Investment Volume	→	→	↑↑

Rental rate growth in both the industrial and office market has declined recently. The office market has slowed due to a lack of quality office availability while the industrial market has slowed due to rates approaching a level that may not be bearable for tenants.

RENTAL RATE GROWTH

New Jersey Year-Over-Year Rate Growth (%)



Source: CoStar Realty Information, Inc.