

New Jersey



Quick Stats

10.2% ↑

New Jersey's unemployment rate (National rate 6.7%)

14.1% ↑

Overall vacancy rate

\$30.74 ↓

Average market rent

-2.2 M ↓

12 month absorption (sf)

Note: Arrows indicate comparison to Q4 2019

Vacancy rates rise as rental rates drop

Vacancy rates have risen 180-basis points since the first quarter of this year to 14.1 percent, and experienced a 120-basis point jump since the fourth quarter of 2019, from 12.9 percent. Market rents dropped only \$.16 year over year to \$30.74/SF. Absorption was negative for the second straight quarter, and it seems that we are starting to see the damage done by the pandemic after a few quarters of relative calm. We expect that in the coming year, availability will increase and rents will fall as the market starts to soften.

Bristol-Myers Squibb signs lease at renovated 9 Roszel Road

Bristol-Myers Squibb signed a 118,110 square-foot lease at 9 Roszel Road in West Windsor. The property is owned by Manulife Investment Management and is scheduled to undergo major renovations, including a cafeteria, updates to the restrooms, and

a redesigned lobby. The life sciences company will occupy the entire three-story building, which is located about a mile from the Princeton Junction train station and near interstate 295.

Gene therapy company takes space at former Bristol-Myers Squibb campus

Passage Bio Inc. signed a 62,000 square-foot lease for lab space at the former Bristol-Myers Squibb campus in Hopewell. The Philadelphia based life sciences company plans on using the space for quality control, process, and development and pilot manufacturing. Passage Bio specializes in gene therapies for rare, monogenic central nervous system disorders. The space is part of Lincoln Equities Group and H.I.G. Realty Partners' Princeton West Innovation Campus, a massive 33 building, 1.14 million-square-foot life sciences campus, which was purchased from Bristol-Myers Squibb earlier this year for \$40 million. Passage Bio has said that the new lab is expected to open in the second quarter of 2021 and that they will add more than 20 new positions to help fill their new space.

118k
sf

BMS' lease at
9 Roszel Rd

LIXIL agrees to lease over sixty thousand feet in Piscataway

Kitchen and bathroom fixture company LIXIL has agreed to lease 60,270 square-feet at the newly renovated 30 Knightsbridge Road in Piscataway. The Japanese company is the parent company to many brands including American Standard, GROHE, INAX, and Tostem, and will join Paychex and QualCare in the Keystone Property Group's 685,000 square-foot complex.

Piedmont sells Bridgewater Crossings, as well as 600 Corporate Drive in Lebanon

Alexander Property Holdings acquired three properties from Piedmont Office Realty Trust this quarter. The New York City-based investor paid \$130 million (\$176/SF) for 200 & 400 Crossing Boulevard in Bridgewater as well as 600 Corporate Drive in Lebanon. The two properties in Bridgewater were both about ninety percent leased at the time of sale while the entire 600 Corporate Drive was available.

Plymouth Rock purchases their corporate HQ from Mack-Cali

After signing a 129,000 square foot lease at 581 Main Street in Woodbridge in 2018, Plymouth Rock decided to purchase the property from Mack-Cali. The insurance company paid \$61 million (\$300/SF) for the 203,335 square-foot building. This is a continuation of Mack-Cali's suburban divestment strategy. Plymouth Rock will continue to maintain its corporate headquarter at the Middlesex County property.

\$300/sf
Price paid for 581 Main St.

KABR cashes in with the sale of 85 Challenger Road

Asia Investment Management (AIM) purchased 85 Challenger Road in Ridgely Park from KABR Real Estate Investment Partners early in the fourth

quarter of 2020. The South Korean investment company paid \$59.7 million (\$255.67/ SF) for the building that serves as Samsung Electronics' United States headquarters. KABR purchased the property in an all-cash transaction in 2009 for \$10.275 million.

In a separate transaction at the end of the third quarter of 2020, KABR also sold the 269,720 square-foot 55 Challenger Road for \$36.5 million to The Birch Group.

Issue Spotlight: Office leasing market starts to thaw

Since the start of the pandemic, and the subsequent remote working revolution, there has been much ink spilled discussing what will happen to the New Jersey office market. These predictions ranged from mass evictions, with the thought that people would not be able to pay their rents, to a great migration from New York City as companies and their employees decide to leave the tightly packed urban market. In the end, neither of these extreme scenarios took place. Landlords were willing to cut deals to keep some cash flow, and New York City tenants were hesitant to add to their current real estate commitments. In a sense, the market was in a "Deep Freeze," where everyone took a cautious approach to their business.

As we start the new year, the market is beginning to thaw. Users are starting to return to the office and are beginning to assess their needs and current footprint. Owners are starting to get a better idea of the status of their tenants and placing more space on the market. Both of these factors have resulted in over 3 million square feet of negative absorption this quarter, after

months of very little movement.

At the same time, New York City users are starting to gauge their employees' appetite for using public transportation and working in the densely populated Manhattan, while also weighing the benefits that the City provides.

As we look towards the future, we expect the vacancy rate in the New Jersey office market to rise, with the sublease vacancy doubling or tripling from 1.3% over the course of the year. We are also not expecting a major exodus out of New York City as Manhattan's appeal will come back as the cultural life returns.

The entire market will be keeping a close eye on whether companies begin to leave the New York metropolitan area entirely to more tax appealing states in the south and west. A recent example of this thought process is Goldman Sachs who this past quarter discussed plans to move one of its large divisions out of New York City to Florida. In the past, the talent pool's quality has forced many companies to have a significant market presence. With the rise and ease of working remotely, this becomes less of a factor. If this happens, this will fundamentally change New Jersey's office market and make recovery a lot more challenging.



Market data points

New Jersey	Q4 20	Q4 19
Vacancy	14.1%	12.9%
Rent	\$30.74	\$30.92

Northern NJ	Q4 20	Q4 19
Vacancy	14.9%	14.3%
Rent	\$31.85	\$32.13

Central NJ	Q4 20	Q4 19
Vacancy	13.0%	10.9%
Rent	\$29.22	\$29.26

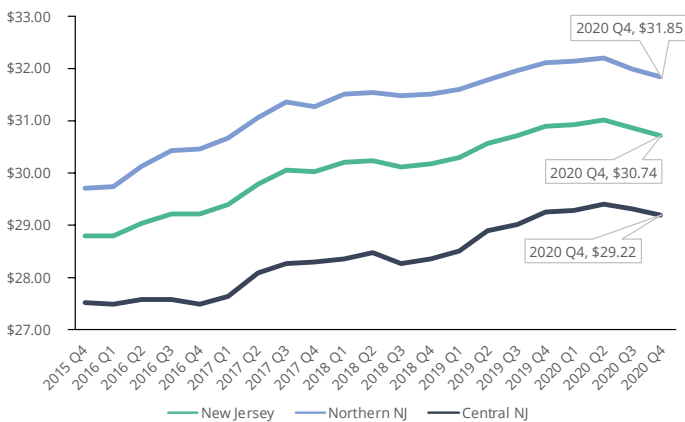
Top leases

Tenant	Address	Submarket	SF	Lease type
1	Bristol Myers Squibb	9 Roszel Road, West Windsor	Princeton South / Central New Jersey	118,110 Direct
2	Passage Bio Inc.	311 Pennington Rocky Hill Road, Pennington	Princeton South / Central New Jersey	62,000 Direct
3	LIXIL	30 Knightsbridge Road, Piscataway	Route 287/ Central New Jersey	60,270 Direct

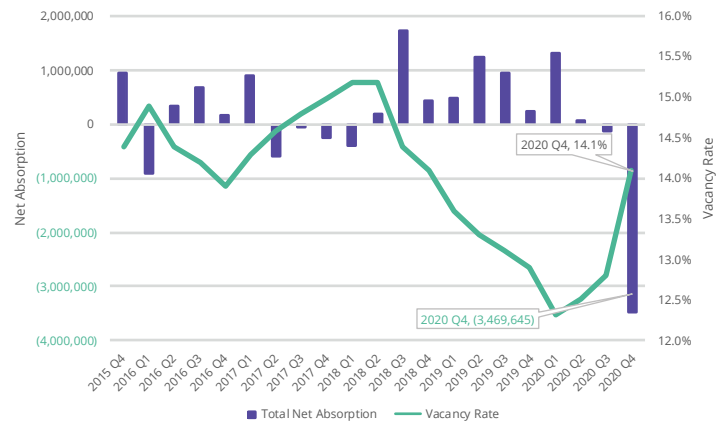
Top sales

Buyer	Address	Submarket	SF	Purchase price
1	Alexander Property Holdings	Bridgewater Crossing, Bridgewater & 600 Corporate Drive, Lebanon	Central New Jersey	738,637 \$130,000,000
2	Plymouth Rock	581 Main Street, Woodbridge	North Edison/ Woodbridge/ Central New Jersey	203,335 \$61,000,000
3	Asia Investment Management	85 Challenger Road	Bergen East/Northern New Jersey	233,505 \$59,700,000

Office market rent



Office total net absorption and vacancy rate



Trends to watch



Will the covid pandemic office downturn be a systemic change to the market?



Will the NJ Economic Recovery Act of 2020 be impactful enough to secure and attract corporate occupiers?

Market by the numbers

Submarket	Inventory (SF)	Direct Vacant (SF)	Sublet Vacant (SF)	Vacancy Rate (%)	Q4 20 Net Absorption	YTD Net Absorption	Current Under Construction (SF)	Market Rent Class A	Market Rent Class B
Bergen Central	6,938,737	936,883	109,159	15.1%	(65,084)	(122,604)	-	\$35.07	\$25.77
Bergen East	9,736,531	886,088	111,778	10.2%	(50,151)	192,239	51,750	\$35.16	\$25.42
Bergen North	9,216,588	1,266,409	43,599	14.2%	(317,005)	(337,122)	52,000	\$35.16	\$27.09
Hudson Waterfront	21,465,423	2,708,303	419,417	14.6%	(403,283)	(288,864)	258,317	\$42.59	\$35.30
Meadowlands	6,450,372	776,183	35,623	12.6%	64,013	58,387	-	\$35.99	\$27.95
Morristown Region	11,045,921	1,450,965	201,803	15.0%	(216,787)	(259,696)	-	\$32.77	\$27.54
Newark/ Urban Essex	18,472,968	2,012,056	31,143	11.1%	61,196	433,068	125,000	\$31.08	\$27.95
Northwest Frontier	322,495	9,934	-	3.1%	6,990	5,001	-	-	\$22.85
Parsippany	16,439,168	3,188,535	303,525	21.2%	(134,100)	190,744	-	\$29.02	\$23.57
Short Hills/ Millburn	3,528,573	604,980	134,553	21.0%	(545,341)	(634,587)	-	\$36.93	\$29.70
Suburban Essex/ Rt 280	11,041,594	1,106,873	180,136	11.7%	(106,244)	(254,118)	-	\$26.24	\$23.97
Wayne/ Paterson	6,375,437	717,444	13,000	11.5%	(105,159)	43,659	34,407	\$32.40	\$30.00
Western Morris	3,100,041	1,297,860	-	41.9%	(3,587)	20,364	-	\$26.23	\$22.34
Northern New Jersey	124,133,848	16,962,513	1,583,736	14.9%	(1,814,542)	(953,529)	521,474	\$34.19	\$26.97
Brunswick/South Edison	13,073,976	1,461,721	127,979	12.2%	(29,568)	177,484	40,000	\$33.76	\$26.72
Hunterdon Cluster	4,664,744	1,190,933	101,641	27.7%	(847,086)	(932,621)	-	\$26.43	\$23.16
Monmouth	11,610,543	1,091,110	89,262	10.2%	(102,248)	(104,979)	25,500	\$34.76	\$26.06
North Edison/ Woodbridge	6,270,272	871,247	90,982	15.3%	(248,080)	(212,445)	-	\$38.51	\$26.67
Princeton North	2,010,054	110,915	39,799	7.5%	180,685	178,045	-	\$28.06	\$26.68
Princeton South	18,089,323	1,470,655	105,808	8.7%	(52,364)	(179,008)	-	\$33.27	\$26.19
Route 22 West	5,161,474	413,585	412,593	16.0%	(93,157)	(95,866)	-	\$27.77	\$22.20
Route 287	9,473,142	1,260,051	53,508	13.9%	(19,552)	(83,959)	-	\$23.46	\$22.77
Route 78 East	15,851,203	2,202,571	220,939	15.3%	(444,413)	12,473	-	\$28.90	\$24.87
Union	4,507,231	430,364	20,124	10.0%	680	588	276,818	\$27.25	\$23.59
Central NJ	90,711,962	10,503,152	1,262,635	13.0%	(1,655,103)	(1,240,288)	342,318	\$31.27	\$25.10
New Jersey	214,845,810	27,465,665	2,846,371	14.1%	(3,469,645)	(2,193,817)	863,792	\$32.97	\$26.17

New Jersey



Quick Stats

10.2% ↑

New Jersey's unemployment rate (National rate 6.7%)

2.7% ↑

Overall vacancy rate

\$9.14 ↑

Market rent (NNN)

7.2 M ↑

12 month absorption (sf)

Note: Arrows indicate comparison to Q4 2019

The vacancy rate appears to have bottomed out at 2.7%; rents continue to rise

The vacancy rate was 2.7 percent at the close of the fourth quarter this year. This is slightly higher than the 2.6 percent it was during the fourth quarter of 2019, while the historic ascent of NNN rents has continued to \$9.14 per square foot. The market has experienced its seventh straight quarter of positive absorption.

Iron Mountain completes sale-leaseback with Blackrock

As part of a 13-property sale-leaseback transaction, Iron Mountain leased 220,328 square feet at 22 Kimberly Road in East Brunswick. Blackstone paid \$358 million to acquire 2,079,007 square feet of industrial and flex properties from Iron Mountain (including three in New Jersey, 20, 22 & 30 Kimberly Road in East Brunswick). As part of the transaction, Iron Mountain signed 10-year deals with options to renew up to an additional 20 years at each of the properties.

National Tree Products takes space at Exit 8

National Tree Products agreed to lease 608,422 square feet at 150 Milford Road in East Windsor. The seller of artificial Christmas trees will occupy the recently updated warehouse. In 2019, Dermody Properties acquired the property, which was part of Conair Corp.'s longtime headquarters. The property boasts 28-to-36-foot ceiling heights and is less than a mile from Exit 8 on the New Jersey Turnpike.

JFR Global Investments purchased 100 Jefferson Road after a multimillion-dollar renovation

JFR Global Investments purchased 100 Jefferson Road in Parsippany. The last-mile distribution center was 63.5 percent leased at the time of sale and boasts 38 foot clear, 35 loading docks, three drive-in doors, and 514 parking stalls. The property was purchased from a joint venture of Turnbridge Equities and Harbor Group International for \$85.25 million (154.04/SF). The property was previously sold in 2018 for \$60.2 million and has recently completed a multimillion-dollar renovation.

Prism Capital Partners sells part of the former Hoffmann LA Roche HQ campus

Prism Capital Partners sold 111 Ideation Way in Nutley to Harrison Street Capital for \$36.75 million (\$224.09/SF). This flex/R&D property is part of the former Hoffmann LA Roche HQ campus and the reimagined ON3 project. The property was 100 percent leased at the time of sale and is home to Hackensack Meridian Health Center for Discovery and Innovation, Modern Meadow, and Y-mAbs Therapeutics, Inc.



Issue Spotlight: Cannabis- Lessons learned from around the country

In November, the voters of New Jersey decided to amend the state constitution to allow for the legal adult use of cannabis starting January 1, 2021. This amendment put the state legislature and Governor on the clock to formalize the legal cannabis marketplace regulations. In the middle of December, both the State Assembly and Senate passed a series of bills laying out the groundwork to tax and regulate the market. (At the time of this writing, Governor Murphy has not signed the bill.)

With the legal cannabis business coming to the Garden State, we decided to look to other states that have legalized the recreational use and growth of cannabis to try to understand the real estate impact.

The first thing we learned was that it would almost exclusively directly affect the industrial and flex markets. After speaking to professionals around the country, the only effect it had on the office market was the repurposing of class C buildings to be used by cultivators. Most operations require very little traditional office space and a small office within an industrial property is sufficient.

The location of the growing facility is often dictated by the state regulations. Many states require a certain distance from schools and other places frequented by children. The current version of New Jersey's regulations forbids a cannabis establishment to be located or advertise "within 200 feet of an elementary or secondary school grounds, recreation center or facility, arcade, child care center, public park, playground, public swimming pool or library; on or in a public transit vehicle or public transit shelter; on or in publicly owned or operated property."

A trend that we observed in other states was that growers decided to occupy properties away from the traditional industrial properties. If they chose to rent, they typically paid a 25 percent premium over the asking rent and are the lone tenant in the building. Due to the specialized equipment needed, growers will often invest a lot of

their own capital in the space, making them "sticky" tenants.

While recreational use and growth of cannabis have become legal in a handful of states, it is still illegal under federal law. This can create challenges for users and landlords. Due to the continued federal illegality, many banks and lending institutions refuse to lend to landlords with cannabis companies as tenants. This has limited the building options for companies involved in the growing and selling of cannabis to owners that own their buildings outright. This hesitancy to lend might change soon as the federal legalization of cannabis continues to gain traction in Washington, D.C. This past quarter the House of Representatives voted on a measure to legalize cannabis on a federal level.

As the New Jersey real estate community prepares for the cannabis industry to enter the market, it is essential to learn about the challenges and successes experienced in other states across the country.



Market data points

New Jersey	Q4 20	Q4 19
Vacancy	2.7%	2.6%
Rent	\$9.14	\$8.71

Northern NJ	Q4 20	Q4 19
Vacancy	3.0%	3.6%
Rent	\$10.47	\$9.96

Central NJ	Q4 20	Q4 19
Vacancy	2.4%	1.7%
Rent	\$8.86	\$8.43

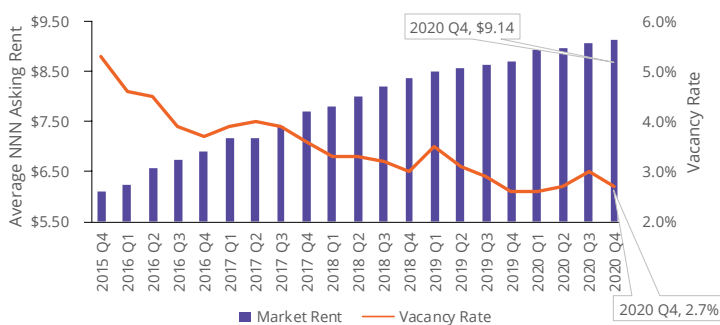
Top leases

Tenant	Address	Submarket	SF	Lease type
1	National Tree Products	150 Milford Road, Hightstown	Mercer/ Central New Jersey	615,000 Direct
2	Currently Unavailable	200 Lundlow Drive, Ewing	Mercer/ Central New Jersey	274,000 Direct
3	Iron Mountain	22 Kimberley Road, East Brunswick	Exit 9- Piscataway/ Central New Jersey	220,328 Sale Leaseback

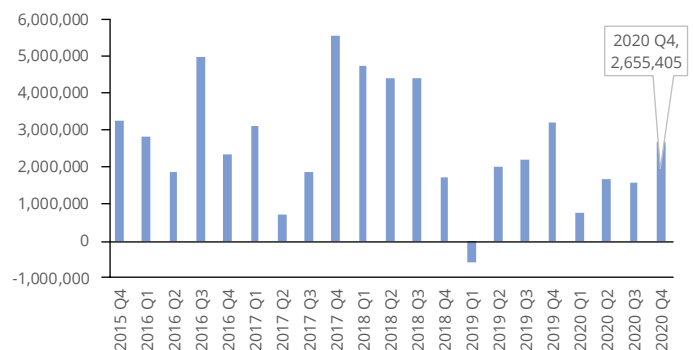
Top sales

Buyer	Address	Submarket	SF	Purchase price
1	Blackstone Real Estate Trust	Iron Mountain Portfolio (13 Properties, 3 in NJ)	Exit 9- Piscataway/ Central New Jersey	2,079,007 (NJ Portion: 429,691) 358,000,000 (NJ portion: \$66,429,975)
2	JFR Global Investments	100 Jefferson Road, Parsippany	Eastern Morris/ Northern New Jersey	553,436 \$85,250,000
3	Harrison Street Capital	111 Ideation Way, Nutley	Suburban Essex/ Rt 280 / Northern New Jersey	163,998 \$36,750,000

New Jersey industrial vacancy rate vs. market rent



Total net absorption



Trends to watch



Will the new administration continue the tariff policy of President Trump?



Will a new Congress and President provide much-needed infrastructure upgrades for New Jersey?

Market by the numbers

Submarket	Inventory (SF)	Direct Vacant (SF)	Sublet Vacant (SF)	Vacancy Rate (%)	Q4 20 Net Absorption	YTD Net Absorption	Current Under Construction (SF)	Market Rent
Bergen Central	21,872,595	764,173	58,200	3.8%	(100,041)	(126,185)	290,385	\$12.07
Bergen North	19,750,746	474,498	7,625	2.4%	(22,815)	41,854	-	\$10.83
Eastern Morris	17,152,137	647,826	49,206	4.1%	81,324	(75,936)	-	\$9.32
Hudson Waterfront	30,478,004	1,147,653	61,500	4.0%	180,486	197,340	-	\$11.31
Meadowlands	90,699,884	2,208,074	435,205	2.9%	(32,832)	1,241,279	433,329	\$10.73
Morris West/I-80	14,570,072	1,221,150	11,000	8.5%	(67,788)	351,386	52,600	\$8.30
Morristown Area	2,920,994	120,569	7,250	4.4%	(23,481)	17,082	-	\$9.81
Newark	37,080,296	565,626	13,500	1.6%	(30,060)	695,667	1,232,144	\$13.07
Northwest Frontier	2,433,624	2,356	-	0.1%	-	29,040	-	\$9.71
Rt. 46/23/3	48,425,599	808,100	71,409	1.8%	435,658	706,801	111,111	\$9.92
West Essex	20,112,250	510,256	9,846	2.6%	165,992	204,942	-	\$9.78
Northern New Jersey	305,496,201	8,470,281	724,741	3.0%	586,443	3,283,270	2,119,569	\$10.47
Exit 8 A	69,406,527	1,037,816	11,156	1.5%	479,593	326,825	1,824,545	\$8.38
Exit 9- Piscataway	50,890,274	1,376,031	115,464	2.9%	(508,888)	308,418	1,537,550	\$9.57
Exit 10- Carteret Avenel	79,116,407	1,016,488	8,880	1.3%	2,069,665	2,346,953	990,517	\$10.05
Mercer	31,552,826	742,020	151,580	2.8%	347,219	(495,299)	1,375,923	\$7.52
Monmouth	16,035,192	647,322	-	4.0%	143,429	307,177	143,833	\$8.35
Somerset	29,562,381	1,435,598	-	4.9%	(630,089)	1,219,547	409,762	\$8.61
Union	58,210,077	1,614,245	-	2.8%	691,276	(93,593)	1,320,943	\$9.30
Central NJ	334,773,684	7,869,520	287,080	2.4%	2,592,205	3,920,028	7,603,073	\$8.86
New Jersey	640,269,885	16,339,801	1,011,821	2.7%	3,178,648	7203298	9,722,642	\$9.14

Unemployment rate rises despite employment growth

As of November 2020, New Jersey's seasonally adjusted unemployment rate was 10.2 percent. This is the third consecutive month that the unemployment rate has increased despite seven straight months of private-sector employment growth, as more people continue to re-enter the labor force and look for jobs. New Jersey has regained only 58.0 percent of the jobs lost since April 2020. The unemployment rate remains 650 basis points higher than it was last year at this time.

New Jersey's unemployment rate also remains 350 basis points higher than the national unemployment rate of 6.7 percent, which has come down from its high in April of 14.7 percent.

In December, Congress passed the Consolidated Appropriations Act, 2021. This bill included an additional direct stimulus payment, more money for the Paycheck Protection Program, a few temporary changes to the tax code, enhanced unemployment benefits through the middle of March 2021 as well as other provisions. It remains to be seen the effect these programs have on the unemployment rate and the economy as a whole.

"New Jersey Economic Recovery Act of 2020" passes in the hopes of making NJ more business-friendly

The New Jersey State Assembly and Senate also passed an important bill to help the state's economy. They voted in favor of the "New Jersey Economic Recovery Act of 2020" which calls for \$14 billion worth of tax subsidies over seven years. These programs were created through a



series of acts outlined in the 249-page bill and included a few of the following:

1. The "Historic Property Reinvestment Act"- Providing tax incentives for the rehabilitation of historic properties.
2. The "Brownfields Redevelopment Incentive Program Act"-Providing assistance to developers to remediate previously polluted sites, to allow for new development.
3. The "New Jersey Innovation Evergreen Act"-This program sells tax credits to generate funds for the state to invest in startups around the state.
4. The "Food Desert Relief Act"- Providing tax credits to encourage the establishments of supermarkets and other grocery stores in underserved areas of the state.
5. The "New Jersey Community-Anchored Development Act"- Provides tax credits to encourage the expansion of targeted industries in select parts of the state.
6. The "New Jersey Aspire Program Act"-This program would provide gap financing to projects that would produce a below-market return but serve a public policy goal. This program replaces the Economic Redevelopment & Growth Program.
7. The "Emerge Program Act"- This program will provide tax incentives to companies that are at risk of leaving the state to attract new companies to the state. The program will serve the same purpose and replace the Grow New Jersey Program.
8. The "Main Street Recovery Finance Program Act"- This program will provide loans and grants to small businesses around the state.
9. The "New Jersey Ignite Act"- The program's goal is to help early innovation companies and create a public-private partnership to help

grow these companies through the use of incubator space and grants.

Proponents of the New Jersey Economic Recovery Act of 2020 applaud the State's effort to keep New Jersey competitive, especially at a time when many businesses are deciding on their next steps after the pandemic. Opponents argue that this is one of the largest tax incentive programs in the country, and one that the state cannot afford, especially after borrowing \$4.28 billion in the most recent state budget.

Multifamily

As with every other sector in real estate, the New Jersey multifamily market has been transformed over the past nine months.

One of the hallmarks of this pandemic is that people spent a lot more time in their homes, which has forced many residents to reevaluate what is important to them. While many people were just looking for a place to lay their heads in the past, now space and amenities play a larger role in people's decision-making process regarding rentals. These amenities include keyless entry, smart office devices as well as concierge services.

With regard to location, while being near a transit hub remains important, having access to a park is working its way up the list as well. Developers are taking note of the change in desires of their clientele and are building larger apartments packed full of amenities to differentiate themselves from the competition.

From an investment perspective, many owners and developers are steering clear of New York City due to the recent rent regulations. This has made New Jersey even more attractive. The strong quality of the residents, coupled with the recent tax incentives, makes New Jersey a highly desirable place for multifamily.

For more market information

Jason Bloom
Regional Research Manager
☎ +1 973 753 1081
✉ jason.bloom@avisonyoung.com

Avison Young - New Jersey
1120 Headquarters Plaza
North Tower, 8th floor
Morristown, NJ 07960

**AVISON
YOUNG**