

New Jersey



Quick Stats

15.2% ↑

New Jersey's unemployment rate* (National rate 11.1%**)

12.7% ↓

Overall vacancy rate.

\$30.56 ↑

Average Market Rent.

1.4 M ↓

12 month absorption (SF).

* May 2020
** June 2020

Vacancy Rate drops year-over-year, while the market waits to see the effects of COVID-19

There was a 70-basis point drop in the vacancy rate since the second quarter of 2019, from 13.4 percent to 12.7 percent, while a 20-basis point jump from the first quarter of this year. Market rents rose \$.34 year over year to \$30.56/SF. Net absorption continued its hot streak, posting a positive number for the ninth-straight quarter. Historically real estate usually trails the economy in a time of recession, we will see what effects the virus has on the New Jersey office market over the next few quarters.

New Jersey Resources signs a fifteen-year renewal to remain in Wall

One of the largest deals of the quarter was New Jersey Resources 157,511 square foot renewal at 1415 Wyckoff Road in Wall. The Fortune 1,000 energy services holding company signed a fifteen-year lease to maintain their presence at their headquarters in Wall, where they occupy the entire building.

McCarter & English maintain its presence at 4 Gateway

In another major renewal this quarter, McCarter & English signed a ten-year extension at 117,300 square foot location at 4 Gateway in Newark. The east coast firm is the latest tenant to renew since Onyx Equities and its partners purchased 1,2 and 4 Gateway late in 2018. The latest extension will allow the law firm to benefit from extensive renovations occurring at the 1.6 million square feet complex.

Bristol-Myers Squibb sells 433-acre "Princeton West Innovation Campus"

In one of the largest sale transactions of the quarter, Lincoln Equities Group and H.I.G. Realty Partners purchased the former Bristol-Myers Squibb campus in Hopewell. The 1.2 million square feet of office, flex, and lab space sits on over 433 acres and includes PTC Therapeutics as its main tenant. The global biopharmaceutical company leased over



200,000 square feet last year and is scheduled to move in during the third quarter of this year. The campus sold for \$32,000,000 (27.32/ SF) and is being marketed for tenancy to life sciences companies.

Opal Holdings makes second splash of the year with their purchase in Pennington

In their second large purchase of the year, Opal Holdings purchased 1100, 1150 and 1200 American Boulevard in Pennington. The 380,417 square foot complex is fully occupied by Merrill Lynch, who currently has a lease in place through November 2024. The three properties were bought in 2013 by a partnership between American Real Estate Partners and Independencia Asset Management for \$90,815,000 (\$238.72/ SF). The joint venture sold the campus in April for \$95,000,000 (249.73/ SF). As part of the agreement, both American Real Estate Partners and Independencia Asset Management will retain a small interest in the properties with the former remaining as the leasing and property management agent for properties. This is Opal Holdings' second major purchase in as many quarters as they purchased Park Avenue at Morris County in Florham Park last quarter from KBS Real Estate Investment Group.

As offices open, what value do they bring?

While for the most part warehouses have remained open during the pandemic, the majority of office buildings have remained closed. As offices begin to open, companies and landlords are tasked with coming with a plan to keep their employees and tenants safe.

Landlords are taking numerous steps to help keep their tenants feeling safe including limiting the number of people in the elevator, upgrading their HVAC systems, providing more maintenance staff, mandating face-covering in public spaces, and providing hand sanitizer dispensers among other things. Some landlords are making more high tech changes to their buildings such as Thermal imaging cameras, contact tracing apps, touchless elevators, and installing UV lighting to help eliminate viruses and bacteria. All of these steps in the hope of keeping their tenants safe.

Individual companies are also taking steps to reduce the probability of an outbreak within their company. A few of these steps include creating a shift work schedule to limit the number of people in

the office, requiring face coverings for all employees, limiting the capacity of conference rooms, reducing the number of people in private offices, closing shared spaces such as kitchens, and lounges, eliminating high touch point devices such as coffee makers and water coolers and creating one-way walking paths. All of these actions to mitigate employee to employee contact throughout the workday and thus reduce the chance of transmitting the virus.

Many companies have given their employees the option to continue to work from home. With this option the question is with all of these requirements and restrictions placed upon the workforce, how many will return to the office when it opens. As with most questions, the answer depends on a large number of individual factors. A few of these factors include the accessibility of the office, is public transportation a requirement to get to the office; the residence of the worker - has the employee been stuck in a small urban apartment with numerous people for the past few months, or has the employee been living in a more open suburban setting; the type of work the employee does and their ability to complete it at home. These are just a few factors that will go into the decision of each employee to return to the office. The decision by each employee is for the most part a short-term decision. The long-term question that many companies are grappling with is what purpose does an office provide? And do we need to and how do we bring people back to the office long term?

As we (hopefully) finish the greatest "work from home" experiment in history, business and office landlords are asking these among other questions. While in the past, the office was the place where you got the majority of your work done, collaborate with your colleagues, and meet with clients and others outside of the organization. These past few months have demonstrated that an office is not necessary to accomplish those goals. At the same time, these past few months have also shown everyone the value of human interaction.

As companies continue to return from COVID-19, the value of the office will be discussed and examined in nearly every boardroom across the country. Landlords will be forced to reimagine how they will develop and market their buildings to demonstrate the value their properties can provide to their tenants and their workforce.

Market Data Points

New Jersey

Indicator	Q2 20	Q2 19
Vacancy	12.7%	13.4%
Rent	\$30.56	\$30.24

Northern New Jersey

Indicator	Q2 20	Q2 19
Vacancy	13.7%	14.9%
Rent	\$31.72	\$31.46

Central New Jersey

Indicator	Q2 20	Q2 19
Vacancy	11.3%	11.4%
Rent	\$28.98	\$28.60

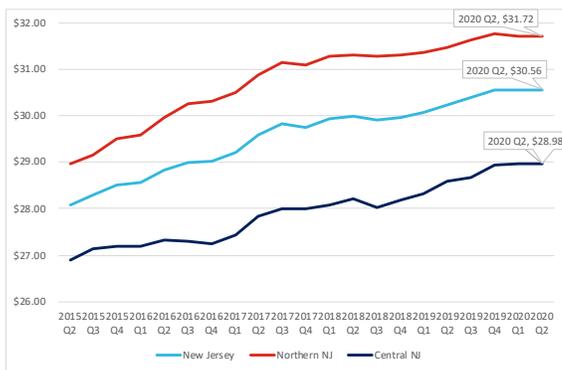
Select Office Sale Transactions

Building	Submarket/Market	Seller	Buyer	Sale Price	Price PSF	Size (SF)
1100- 1200 American Boulevard, Pennington (3 Properties)	Princeton South/Central New Jersey	American Real Estate Partners & Independencies S.A.	Opal Holdings	\$95,000,000	\$249.73	380,417
Princeton West Innovation Campus, Hopewell	Princeton North Central New Jersey	Bristol-Myers Squibb	Lincoln Equities	\$32,000,000	\$27.32	1,200,000
420-430 Mountain Avenue, New Providence (2 Properties)	Rt 78 East/Central New Jersey	EverWest Real Estate Investors	Signature Acquisitions	\$28,950,000	\$95.58	302,903

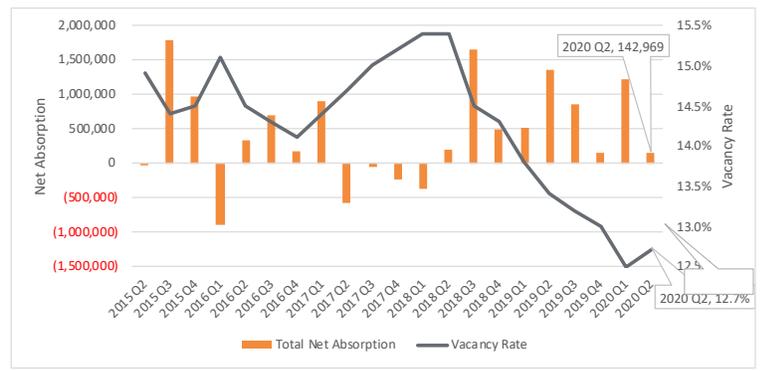
Select Office Lease Transactions

Tenant	Building	Submarket / Market	Type	Size (SF)
New Jersey Resources Corporation	1415 Wyckoff Road, Wall	Monmouth/ Central New Jersey	Renewal	157,511
McCarter English	4 Gateway Center, Newark	Newark/ Urban Essex/ Northern New Jersey	Renewal	117,300
Kiewit	470 Chestnut Ridge Road, Woodcliff Lake	Bergen North/ Northern New Jersey	Renewal	52,500

New Jersey Office Market Rent



New Jersey Office Total Net Absorption and Vacancy Rate



Trends to Watch



Companies from New York City, adopting a hub and spoke model, opening more local offices in the New Jersey suburbs

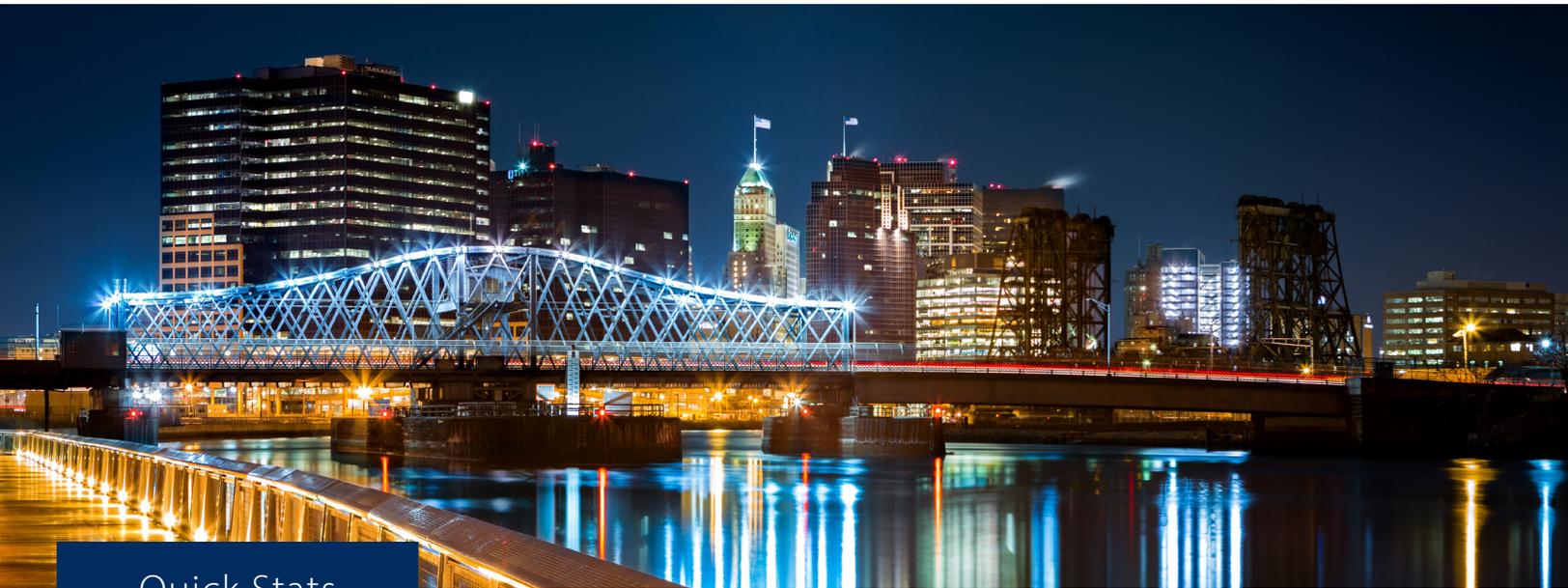


Even as offices open, many employees (who are given the option) will continue to work from home

Market By The Numbers

Submarket	Inventory (SF)	Direct Vacant (SF)	Sublet Vacant (SF)	Vacancy Rate (%)	Q2 20 Net Absorption	YTD Net Absorption	Current Under Construction (SF)	Market Rent Class A	Market Rent Class B
Bergen Central	6,915,217	853,636	85,046	13.6%	(76,860)	(20,496)	-	\$34.75	\$25.85
Bergen East	9,318,033	813,972	50,544	9.3%	13,371	(17,725)	411,750	\$34.81	\$25.77
Bergen North	9,142,843	830,496	53,691	9.7%	(52,022)	86,182	-	\$34.81	\$27.19
Hudson Waterfront	21,358,583	2,426,618	306,407	12.8%	495,145	341,946	125,000	\$42.55	\$36.77
Meadowlands	6,200,372	783,810	49,535	13.4%	(40,703)	(55,250)	250,000	\$35.00	\$27.85
Morristown Region	11,041,244	1,163,913	113,900	11.6%	(71,684)	(15,563)	-	\$32.67	\$26.74
Newark/ Urban Essex	18,262,573	2,473,331	89,280	14.0%	(3,235)	146,811	165,000	\$30.98	\$27.70
Northwest Frontier	322,495	18,805	0	5.8%	-	(3,870)	-	-	\$22.43
Parsippany	16,540,190	3,132,681	276,725	20.6%	(76,439)	225,705	64,000	\$28.91	\$23.05
Short Hills/ Millburn	2,934,417	160,741	82,831	8.3%	(72,536)	(133,886)	-	\$39.05	\$29.33
Suburban Essex/ Rt 280	11,039,526	1,005,167	185,431	10.8%	(164,803)	(177,090)	-	\$26.08	\$23.32
Wayne/ Paterson	6,381,850	573,696	13,000	9.2%	129,347	182,733	-	\$34.00	\$30.23
Western Morris	3,063,591	1,289,784	0	42.1%	(4,682)	13,100	-	\$25.45	\$20.93
Northern New Jersey	122,520,934	15,526,650	1,306,390	13.7%	74,899	572,597	1,015,750	\$34.06	\$26.82
Brunswick/South Edison	12,993,860	1,512,791	81,569	12.3%	115,353	234,641	100,000	\$33.61	\$26.44
Hunterdon Cluster	4,648,859	231,478	122,060	7.6%	(3,151)	12,244	-	\$26.35	\$22.60
Monmouth	11,756,122	1,112,423	55,608	9.9%	26,714	98,811	89,722	\$34.25	\$26.51
North Edison/ Woodbridge	6,248,378	716,176	51,748	12.3%	82,751	133,173	-	\$38.47	\$27.05
Princeton North	1,998,054	278,777	39,799	15.9%	2,170	6,463	-	\$27.96	\$25.64
Princeton South	18,208,611	1,416,844	203,870	8.9%	(191,968)	(212,703)	-	\$32.75	\$25.82
Route 22 West	5,161,284	309,878	428,450	14.3%	22,455	(56,842)	-	\$27.48	\$21.18
Route 287	9,509,713	1,200,648	153,018	14.2%	(51,996)	(24,984)	-	\$23.14	\$22.55
Route 78 East	16,141,220	1,710,690	246,132	12.1%	108,736	556,115	-	\$28.60	\$24.48
Union	4,487,031	412,106	20,450	9.6%	(42,994)	32,614	205,111	\$26.84	\$22.82
Central NJ	91,153,132	8,901,811	1,402,704	11.3%	68,070	779,532	394,833	\$31.04	\$24.84
New Jersey	213,674,066	24,428,461	2,709,094	13.0%	142,969	1,352,129	1,410,583	\$32.81	\$25.96

New Jersey



Quick Stats

15.2% ↑

New Jersey's unemployment rate* (National rate 11.1%**).

2.8% ↓

Overall vacancy rate.

\$8.96 ↑

Market Rent (NNN).

6.1 M ↓

12 month absorption (SF).

*May 2020
**June 2020

Industrial remains strong as e-commerce strengthens its grip on retail

The vacancy rate dropped to 2.8 percent when compared to the first quarter of 2019 when it was 3.1 percent, while the historic ascent of market rent has continued its historic rise to \$8.96 per square foot net. Historically, real estate trails the economy in a time of recession, but early indications are that e-commerce has bucked the trend and increased its grip on the future of retail, resulting in the strengthening of an already strong industrial market. The next few quarters will be important as we get a clearer picture of the effects the virus has on the New Jersey industrial market.

Amazon makes a slew of leases during the second quarter

With the numerous “stay at home” orders over the past few months in many states

around the country including New Jersey, e-commerce has only become more popular. This has resulted in the industrial real estate market to remain active, with arguably the most famous e-commerce company leading the way. Amazon completed numerous large deals this quarter including deals at Alfieri’s 343 Half Acre Road in Cranbury (953,595 SF); Centerpoint’s 1800 Lower Road in Linden (386,296 SF); Prologis’ 8-B Court South in Edison (289,698 SF); Duke Realty’s 1 Paddock Street in Avenel (185,017 SF); RTC Properties’ 5 Logistics Drive in Kearny (181,440 SF); Brookfield’s 10 Patton Drive in West Caldwell (167,894 SF); Black Creek’s 5 Paddock Street in Avenel (156,307 SF) and CT Realty Investors’ 79 Thomas McGovern Drive in Jersey City (95,808). These recent leases further demonstrate Amazon’s belief that New Jersey’s central location remains essential as they continue to expand to service its customers in the Northeast.

White Claw distributor joins Uniqlo at Bridge Point 78 in Phillipsburg

White Claw distributor, Mark Anthony Brewing Inc. signed a seven-year, 419,460 square foot lease at Bridge Development Partners' Bridge Point 78 in Phillipsburg. Mark Anthony Brewing Inc., which is also known for launching Mike's Hard Lemonade, will be joining clothing retailer Uniqlo at the six-warehouse, 3.85 million square foot industrial campus. The White Claw distributor is expected to employ about 100 employees once the site is fully operational.



The market starts to adjust from the fallout of COVID-19

While the industrial market has seemingly not missed a beat as a result of the pandemic, with e-commerce taking on a larger role in the retail space, there have been and will be few changes that we would like to highlight will be occurring both in the short and long term.

The first is the size of the space available. While the pandemic has been a boon for many big-box retailers, many small to medium size users of industrial space were affected negatively, forcing many of them to leave their space. This has resulted in an uptick of available space 50,000 square feet and less. Eighty-one percent of space that has come to the market since February has been less than 50,000 square feet. This is compared to sixty-seven percent of the space that has been marketed as available before February. We are expecting this to revert to the pre-pandemic levels as the economy recovers from this current recession.

The second trend that we see having both a short-term and long-term effect on the industrial market is an emphasis on reverse logistics. Reverse logistics is the part of the supply chain that handles returns. While in the past, this been the "boring" part of the supply chain with very little innovation and viewed as "just a cost of doing business," the increased rise in e-commerce has caused this part of the supply chain to be getting a lot more attention from companies. While in the short-term, there is an expected boom in returns as a result of COVID-19 with many consumers having merchandise to return. These consumers purchased their items online but have been unable to return them due to store closures.

There is a hesitancy to venture outside to the post office or delivery service company. As a result, many companies are expecting an uptick in returns, usually reserved for post-holiday in January.

In the long-term reverse logistics is expected to continue to play a larger role in companies' supply chain. The ease for customers to purchase multiple sizes and styles of same items online, with the intention to only keep the correct size or style, coupled with the expectation of free and easy returns will continue to make reverse logistics more relevant as e-commerce continues to grow.

This expected uptick in returns, both in the short and long-term leads to the third trend. An increase in staffing needed to manage this increase. As a result of the pandemic, many service jobs have been lost, and it is expected that a portion of them will not be returning once the economy returns to its "new normal." Economists are expecting that many of the people that do not have their jobs return, will turn to e-commerce to fill their increased need for new labor. Companies will have to develop safety plans to attract this new labor as well as develop plans to train these new employees as quickly and safely as possible.

It is expected that the market share e-commerce has gained through the past few months will remain relatively stable. With that, reverse logistics will continue to play a larger role both in business as a whole, as well as the company's real estate decisions. These decisions could include combining both their forward and reverse logistics operations at the same facilities close to population centers. It could also include enabling their retail partners or their third-party logistics provider to handle the responsibility of returns as opposed to the manufacturer. These are just a couple of options that companies might implement, in the hope of reducing cost, and ultimately getting the product back to an end-user quicker and more efficiently. While this emphasis on reverse logistics did not just appear during the COVID-19 pandemic, like many of the changes happening in the marketplace, it was just accelerated. It has forced decisions to be made on employment, training, safety, and real estate among others a lot quicker than most experts expected it to be.

Market Data Points

New Jersey

Indicator	Q2 20	Q2 19
Vacancy	2.8%	3.1%
Rent	\$8.96	\$8.55

Northern New Jersey

Indicator	Q2 20	Q2 19
Vacancy	3.5%	3.8%
Rent	\$10.26	\$9.52

Central New Jersey

Indicator	Q2 20	Q2 19
Vacancy	2.1%	2.4%
Rent	\$8.69	\$7.53

Select Industrial Sale Transactions

Building	Submarket/Market	Seller	Buyer	Sale Price	Price PSF	Size (SF)
50 Veronica Avenue, Somerset	Somerset / Central New Jersey	Crow Holdings & The Carlyle Group	Bentall Green Oak	\$164,000,000	\$177.03	926,392
220 Circle Drive, Piscataway	Exit 9- Piscataway/ Northern New Jersey	Humanscale	Black Creek Group	\$20,550,000	\$167.00	123,000
100 Industrial Road, Berkley Heights	Union/ Central New Jersey	EGL Company	Camber Real Estate Partners	\$8,400,000	\$107.87	77,875

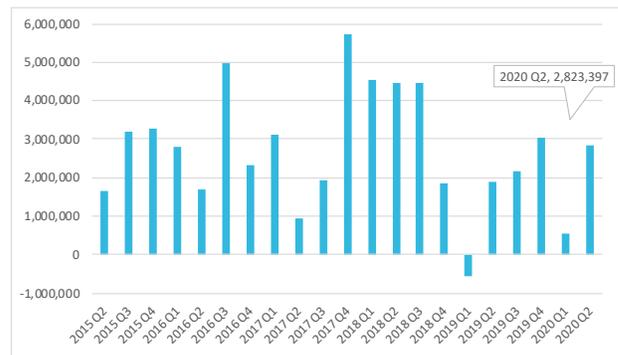
Select Industrial Lease Transactions

Tenant	Building	Submarket / Market	Type	Size (SF)
Amazon	343 Half Acre Road, Cranbury	Exit 8/ Central New Jersey	New	953,595
Mark Anthony Brewing	942 Memorial Parkway, Phillipsburg	Warren/ Central New Jersey	New	419,459
Amazon	1800 Lower Road, Linden	Union/ Central New Jersey	New	386,296

New Jersey Industrial Vacancy Rate vs. Direct Asking Rent



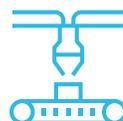
Total Net Absorption



Trends to Watch



Growing e-commerce market share will only tighten an already tight industrial market



The newly signed USMCA trade deal signed by the United States, Canada, and Mexico, that supersedes NAFTA

Market By The Numbers

Submarket	Inventory (SF)	Direct Vacant (SF)	Sublet Vacant (SF)	Vacancy Rate (%)	Q1 20 Net Absorption	Current Under Construction (SF)	Market Rent
Bergen Central	21,992,050	587,358	178,900	3.5%	52,294	-	\$11.83
Bergen North	20,032,087	894,206	68,027	4.8%	(60,555)	-	\$10.61
Eastern Morris	17,008,422	637,319	29,007	3.9%	(36,994)	-	\$9.14
Hudson Waterfront	30,734,100	1,052,054	16,800	3.5%	152,850	-	\$11.09
Meadowlands	90,669,927	2,420,574	375,281	3.1%	(132,255)	1,533,901	\$10.52
Morris West/I-80	14,285,926	1,055,121	11,000	7.5%	(62,732)	-	\$8.14
Morristown Area	2,818,289	219,041	-	7.8%	(5,500)	-	\$9.682
Newark	37,588,606	526,334	48,000	1.5%	75,634	142,972	\$12.81
Northwest Frontier	2,522,132	41,096	-	1.6%	2,800	-	\$9.582
Rt. 46/23/3	48,480,710	1,460,662	212,964	3.5%	157,020	-	\$9.572
West Essex	20,732,006	564,360	32,571	2.9%	90,869	-	\$9.59
Northern New Jersey	306,864,255	9,458,125	972,550	3.4%	233,431	1,676,873	\$10.26
Exit 8 A	68,784,416	523,435	11,156	0.8%	409,585	2,125,865	\$8.22
Exit 9- Piscataway	49,462,332	385,364	15,870	0.8%	673,908	1,680,702	\$9.38
Exit 10- Carteret Avenel	76,491,309	1,149,733	39,763	1.6%	19,384	2,326,515	\$9.85
Mercer	31,607,158	716,271	-	2.3%	8,527	486,350	\$7.37
Monmouth	16,129,133	892,190	15,000	5.6%	4,614	108,283	\$8.19
Somerset	26,863,815	408,176	32,573	1.6%	45,933	2,356,674	\$8.44
Union	58,819,634	1,350,804	7,055	2.3%	(319,923)	1,612,842	\$9.12
Central NJ	328,157,797	5,425,973	121,417	1.7%	842,028	10,697,231	\$8.69
New Jersey	635,022,052	14,884,098	1,093,967	2.5%	1,075,459	12,374,104	\$8.96

New Jersey Economy



New Jersey unemployment significantly higher year over year, but down from April

As of May 2020, New Jersey's seasonally adjusted unemployment rate was 15.2 percent. While this is significantly higher as compared to May 2019 (3.3 percent), it is also lower compared to the revised April 2020 unemployment rate of 16.3 percent. The New Jersey rate was 190 basis points higher than the national rate and ranked eighth highest in the country. It is expected that the unemployment rate will continue to drop, as New Jersey business continue to open up.



NJ economy moves down the path towards a “New Normal,” as long-term effects of Virus wait to be seen

The past few months have been unlike anything our economy has ever seen, with extremely high unemployment and an almost complete freeze of all in-person commerce. These events have been coupled with unprecedented recovery/preventive actions taken by the Federal Government, such as the CARES Act as well as numerous programs by the State of New Jersey. As of the time of this writing, the state was in the midst of implementing many features of its “Phase 2” of Governor Murphy’s four-phase recovery plan culminating in a “New Normal”

While the state inches its way back to a “New Normal,” we will be able to evaluate the measures taken by both federal and local governments to try to determine if they achieved their intended goal, of keeping the economy afloat turning this unusual period.

We will specifically look at the unique approach taken by the Federal Government to give money directly to taxpayers, and provide money on top of the typical unemployment benefits. We will also have an opportunity to review the result of the government’s efforts to keep small businesses running through the crisis with the Payroll Protection Program and other state programs. Observers will be taking a close look at many factors such as which jobs return, which jobs people still want, and if consumer demand returns to its pre-COVID-19 levels.

The long-term effects of the virus on the economy remains to be seen. A few items that will be focused on, is the further of acceleration of E-commerce, the practicality of experiential entertainment (movie theaters, sports games, amusement parks and the surrounding business they support), and the shift in consumers spending/saving habits as they prepare for a potential second and third wave of the virus. There will also be a reexamination by companies around the world in regards to business travel and its transformation on both the airline and hospitality industry. Finally, there will be an effect of the tremendous amount of debt the local and national have taken on a part of the recovery package, and its potential hindrance of current and future government programs.

While economists and laypeople alike will be keeping a keen eye on the new economic landscape created by the pandemic, it will take years to see the full impact the virus has on the economy. One thing that most people agree on is that, history will look upon the past few months as a major turning point in the worldwide economy from which change has likely occurred on a permanent basis.. (At the time of this writing there have been talks about an additional stimulus package, but no such package has been approved yet.)