

Savills Studley Report

Northern New Jersey office sector Q2 2018



SUMMARY

Market Highlights

LEASING JUMPS

Leasing activity spiked from 1.1 million square feet (msf) in the first quarter, to 1.7 msf in the second quarter. Nevertheless, tenants have leased only 5.2 msf in the four most recent quarters, falling well short of the long-term market average.

AVAILABILITY RATE REVERSES DIRECTION

Despite the flurry of larger leases completed in the quarter, the market's overall availability rate jumped to 25.6%, a 30 basis point increase from the second quarter of 2017. The Class A availability rate rose by 50 basis points to 27.4%.

RENT DOWN SLIGHTLY

Average asking rent for the region inched down by 0.1%, falling to \$27.78. The Class A asking rent fell by 0.5% to \$28.38. Class A asking rent has fallen by 3.7% year-on-year.

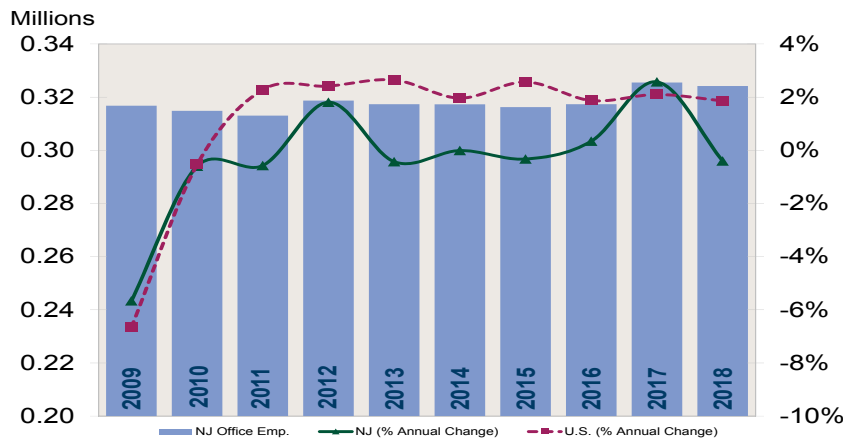
WEAKER SALES

Office property sales in the last six months (through May of 2018) decreased by 42% — totaling \$857 million, down from \$1.5 billion in the previous six months.

"The efforts of developers to recapture massive vacant corporate campuses have met with varied success. The region added yet another such challenging complex, as the massive Toys"R"Us headquarters prepares to close its doors."

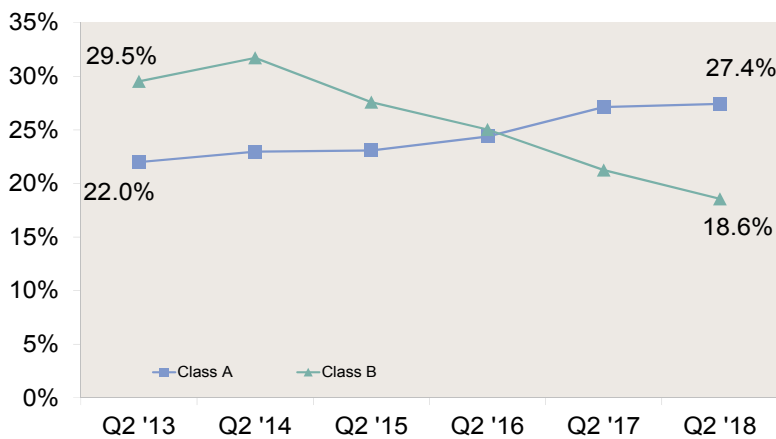
Savills Studley Research

Office-Using Employment Trends

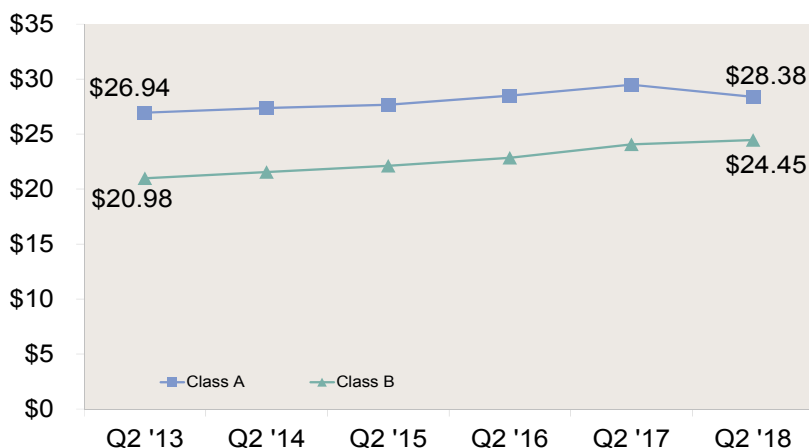


Source: Bureau of Labor Statistics^

Availability Rate Trends



Asking Rent Trends (\$/sf)



Another Shoe Drops

The last thing Northern New Jersey needs is another vacant suburban corporate campus. Another hole will be opening up this summer, though, as the Toys “R” Us complex in Wayne is poised to shut down. The company will leave behind a sprawling complex with multiple buildings totaling more than 900,000 sf located on a secluded 200-acre lakefront site. Northern New Jersey can make a legitimate claim to being the starting point of the corporate campus – AT&T Bell Labs opened its first campus in 1942. It took a while for the concept to take off, but construction peaked in the 1980s. Just under 98 msf of Northern New Jersey’s office stock was constructed in the 1980s, nearly the same amount as currently exists in Lower Manhattan. The current availability rate for this core part of the market is well over 20%.

The struggles of the suburban office campus can be attributed to many different things: millennials prefer more dynamic urban centers, technological advancement the reduced need for clerical workers, the shift to online sales has thinned the ranks of call center employees. High housing costs and taxes, particularly compared to Sunbelt states, may have given companies and households added cause to move elsewhere.

Additionally, the majority of the complexes are now 20 to 40 years old, built in a pre-IT era. Proposals for the Toys “R” Us complex include affordable housing or residential uses. However, concerns from local residents about escalating taxes and congestion can often hinder redevelopment proposals. In Park Ridge, the mayor resigned after a failed bid to turn the 37-acre Sony office park into affordable housing. New Jersey has a long list of other corporate compounds that are either still sitting vacant, or are in the process of being recaptured. Examples include: Warren Corporate Center, Hoffman-Roche’s campus in Nutley and smaller buildings like 1 Lake Street and the former Mercedes-Benz campus in Montvale.

Metroburb Blueprint

The blueprint for campuses that have been successfully repurposed, involved bringing urban amenities and a live/work/play settings to the corporate campus. Bell Labs, which has been described by its developer Ralph Zucker as a “metroburbs,” has become the model for success. The developer is essentially building a village on the sprawling 100-acre grounds. Many of the most recent tenants to sign leases will add to the conveniences that businesses and residents can access — including a florist, Montessori school and salon.

Vision Real Estate Partners and Rubenstein

have also been successful at recapturing complexes. Their latest project will be quite an undertaking: repositioning the 30-acre former Morris Corporate Center IV, on Interpace Parkway in Parsippany. The development, to be called Bi-Coastal Latitude East & West, will have 700,000 sf of space. The project aims to bring connectivity and walkability to the sprawling campus. They will link two pods of interconnected buildings via an atrium and entryway with a staircase that connects the two-building pods. As tenants traverse the walkway they will view artistic elements and select from cuisine options that will transition from an East Coast to a West Coast time zone. Indoor and outdoor amenity space will be added.

Cutting Edge Corporate HQs

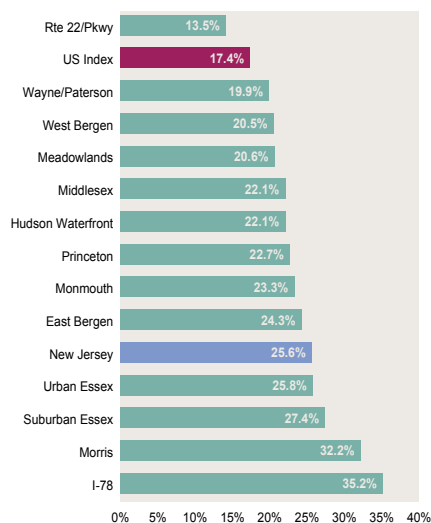
These developers are adding extensive amenities in a bid to compete with properties set in more urban settings. Some of the most innovative buildings are coming in company headquarters. A few are adding amenities and services that enhance the comfort of their employees and in some cases set a new standard for sustainability, wellness and the “agile” workplace.

Unilever headquarters in Englewood Cliffs, for example, is being billed as one of the smartest buildings in the world. Co-developed by Normandy Real Estate Partners and Edge Technologies, the property is equipped with 15,000 sensors to measure temperature, humidity, automatic light and temperature control. The goal is to lower energy consumption over the 17-year lease by 40% with an expected 20% reduction in operating costs. Unilever’s new headquarters is 41% smaller than the prior building, but it will accommodate 1,600 employees compared to 1,000 previously. The cafeteria features locally sourced and healthy foods, an on-site gym that charges only \$10 a month, as well as small wellness rooms for workouts, stretching and meditation. The building embraces the notion of an agile workplace, employing a “free address” principle that does not have any dedicated desks. Employees can use an app called MapiQ to locate their coworkers in the building and to customize lighting in their space.

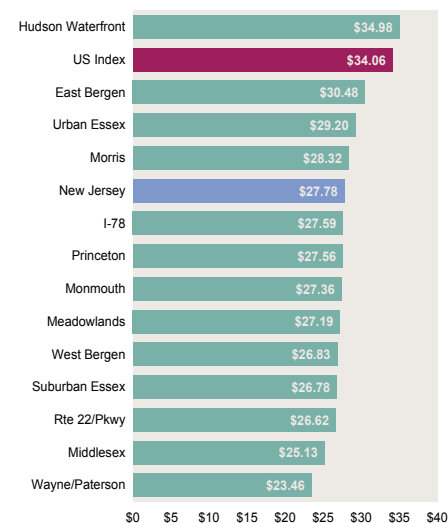
Millennial Brain Drain

Massive corporate headquarters facilities face a fundamental demographic challenge: the loss of population and younger workers. According to U.S. Census data - from 2000 to 2013, the number of 22 to 34 year olds living in New Jersey fell by 2.3%. This is headed in a completely different direction from national trends, which show a 6.8% increase in this cohort. New Jersey has a high concentration of highly skilled and educated workers, but it faces a bit of a brain drain among its youth. Many

Availability Rate Comparison



Overall Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
Integra Life Sciences	166,791	1100 Campus Rd	Princeton
JPMorgan Chase	148,521	480 Washington Blvd	Hudson Waterfront
Mars Wrigley Confectionery US	148,460	110 Edison Pl	Urban Essex
New Cingular/AT&T	139,234	15 E Midland Ave	West Bergen
Plymouth Rock	129,000	581 Main St	Middlesex
Celgene Corporation	107,710	7 Powder Horn Dr	I-78
Computershare Ltd	49,500	480 Washington Blvd	Hudson Waterfront
Amneal Pharmaceuticals	40,110	400 Crossing Blvd	Route 22
SS&C Technologies	34,600	1095 Morris Ave	Route 22
Comodo	20,000	5 Becker Farm Road	Suburban Essex

of its high-school students attend out-of state schools that are more affordable. Tuitions and fees at New Jersey higher-learning institutions are the fourth-highest nationally, and state funding for NJ higher education has fallen 40% in the last 25 years. Approximately half of New Jersey high school students go out of state for college. The NJBIA Postsecondary Education Task Force's 13-point action plan focuses on two key strategies (affordability and attractability).

Employers also note a skills shortage in professions that do not require a college degree. One of the few things that legislators in Trenton agree on is seeking a bipartisan agreement on the need to fund vocational-technical training. Trenton is discussing a \$500-million referendum to expand and upgrade vocational-technical high schools in all 21 counties. The proposal is the byproduct of a "manufacturing caucus" on ways to assist New Jersey businesses. Many local universities, industry groups and state agencies are already collaborating on initiatives to identify skill gaps and encourage

learning in these areas. Fairleigh Dickinson, for example, is partnering with corporate clients to identify gaps. The university won a New Jersey Department of Labor and Workforce Development grant to create a Talent and Development center. Cognizant and Teaneck are forming a nonprofit foundation to fund STEM education and skills programs and initiatives for high school graduates, community college students and veterans looking to gain technical skills. In Bergen County, employers can arrange for customized training at Bergen Community College.

Looking Forward

Looking out past 2018 to 2019, the future of Grow NJ, which was a major tool deployed to keep businesses within New Jersey, looms large. The tax credit, which played a major role in tenant retention during the Christie Administration, sunsets in June of 2019.

Map	Submarket	Total	Leasing Activity	Available SF			Availability Rate			Asking Rents Per SF		
		SF (1000's)	Last 12 Months	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. ⁽¹⁾	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
1	East Bergen	6,394	387	1,552	6.2%	1,727	24.3%	1.4%	27.0%	\$30.48	7.7%	\$25.85
	East Bergen - Class A	4,612	345	1,129	10.1%	1,184	24.5%	2.3%	25.7%	\$31.55	9.6%	\$26.26
2	West Bergen	9,895	578	2,032	-8.0%	2,379	20.5%	-1.8%	24.0%	\$26.83	-0.4%	\$27.99
	West Bergen - Class A	5,695	389	1,383	5.9%	1,527	24.3%	1.4%	26.8%	\$27.09	0.6%	\$28.26
3	Wayne/Paterson	4,680	174	933	1.0%	1,161	19.9%	0.2%	24.8%	\$23.46	-1.0%	\$22.56
	Wayne/Paterson - Class A	3,079	99	789	0.9%	822	25.6%	0.2%	26.7%	\$23.47	-3.1%	\$23.37
4	Meadowlands	5,586	229	1,153	-10.9%	1,114	20.6%	-2.5%	19.9%	\$27.19	3.5%	\$24.75
	Meadowlands - Class A	4,363	205	964	-12.5%	911	22.1%	-3.2%	20.9%	\$28.26	4.7%	\$27.68
5	Hudson Waterfront	17,933	438	3,962	2.2%	3,956	22.1%	0.5%	22.1%	\$34.98	-1.4%	\$39.81
	Hudson Waterfront - Class A	16,935	436	3,890	2.2%	3,891	23.0%	0.5%	23.0%	\$34.75	-2.2%	\$40.07
6	Urban Essex	13,094	264	3,376	-0.6%	3,257	25.8%	-0.2%	24.9%	\$29.20	-1.7%	\$29.11
	Urban Essex - Class A	9,291	262	2,467	-6.4%	2,597	26.6%	-1.8%	27.9%	\$30.05	-1.7%	\$29.95
7	Suburban Essex	5,671	53	1,556	3.6%	1,419	27.4%	1.0%	25.0%	\$26.78	-1.6%	\$27.91
	Suburban Essex - Class A	4,977	40	1,467	4.2%	1,226	29.5%	1.2%	24.6%	\$27.18	-1.3%	\$28.14
8	Morris	23,304	716	7,495	5.5%	7,509	32.2%	1.7%	32.2%	\$28.32	2.6%	\$26.95
	Morris - Class A	18,904	595	6,300	7.3%	6,074	33.3%	2.3%	32.1%	\$29.43	3.1%	\$28.23
9	I-78	16,244	488	5,712	2.6%	4,978	35.2%	0.9%	30.6%	\$27.59	-3.2%	\$28.00
	I-78 - Class A	14,619	448	5,455	1.8%	4,725	37.3%	0.6%	32.3%	\$28.02	-2.7%	\$28.49
10	Route 22/Parkway Corridor	2,025	62	287	-17.0%	404	14.2%	-2.9%	19.9%	\$26.62	-4.0%	\$27.49
	Route 22/Parkway Corridor - Class A	1,320	49	235	-16.6%	342	17.8%	-3.5%	25.9%	\$27.20	-3.0%	\$28.09
11	Middlesex	16,233	1,104	3,587	-1.1%	3,867	22.1%	-0.3%	23.8%	\$25.13	-0.7%	\$25.11
	Middlesex - Class A	13,647	1,083	3,171	-0.9%	3,444	23.2%	-0.2%	25.2%	\$25.84	-0.8%	\$25.94
12	Monmouth	6,570	108	1,530	1.2%	1,618	23.3%	0.3%	24.6%	\$27.36	-10.5%	\$29.03
	Monmouth - Class A	3,924	73	895	2.1%	927	22.8%	0.5%	23.6%	\$28.74	-22.0%	\$31.24
13	Princeton	15,748	610	3,579	1.0%	3,813	22.7%	0.2%	24.2%	\$27.56	-1.6%	\$26.96
	Princeton - Class A	13,015	520	3,224	1.1%	3,370	24.8%	0.3%	25.9%	\$28.36	-1.2%	\$27.82
1-13	New Jersey Total	143,378	5,212	36,753	1.1%	37,200	25.6%	0.3%	25.9%	\$27.78	-0.1%	\$28.58
	New Jersey Total - Class A	114,383	4,544	31,370	1.7%	31,040	27.4%	0.5%	27.1%	\$28.38	-0.5%	\$29.48

Please contact us for further information

Rutherford Office

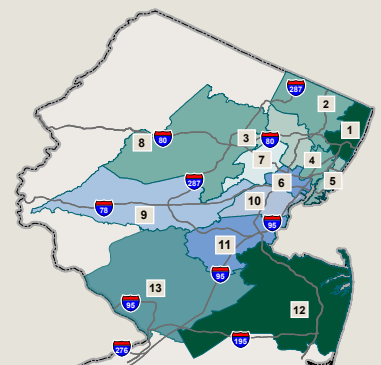
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(1) Percentage point change for availability rates.

Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.

Statistics are calculated using both direct and sublease information.

Short-term sublet spaces (terms under two years) were excluded.

^Unless otherwise noted, source for data is Savills Studley.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.

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