

Savills Studley Report

Northern New Jersey office sector Q3 2018



SUMMARY

Market Highlights

LEASING HOLDS STEADY

For the second straight quarter, a flurry of incentive-driven leases boosted leasing, pushing activity to 2.0 million square feet (msf). Larger tenants continued to take advantage of ample space options and extensive incentives. Tenants have leased 6.0 msf in the four most recent quarters.

AVAILABILITY RATE FALLS

The flurry of larger leases completed in the last two quarters appears to have had some impact. The market's overall availability rate fell by 140 basis points to 24.2%. The Class A availability rate decreased by 170 basis points to 25.7%.

RENT DOWN SLIGHTLY

Average asking rent for the region dropped by 0.9%, falling to \$27.53. The Class A asking rent fell by 1.4% to \$28.18. Class A asking rent has fallen by 4.4% year-on-year.

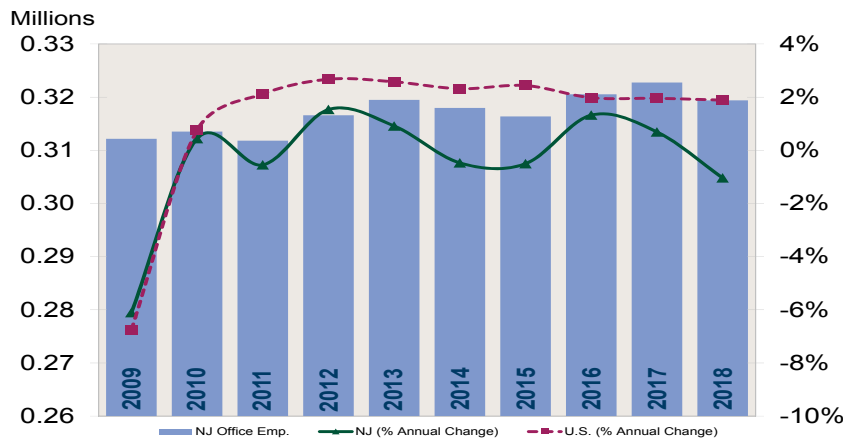
WEAKER SALES

Office property sales during the first seven months of the year totaled \$914 million, a 45% decrease compared to the first seven months of 2017.

"Tenants have capitalized on tax credits granted via the Grow NJ incentive program as well as generous concessions from landlords. Steady leasing has made a slight dent in availability in select areas, but companies still have ample options to consider."

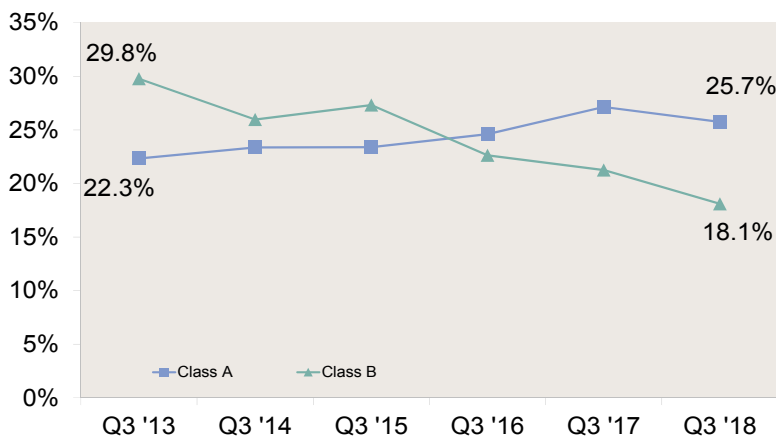
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Office-Using Employment Trends

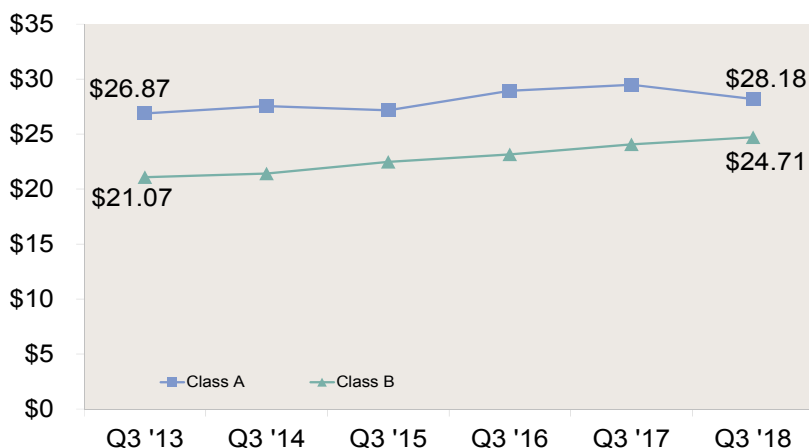


Source: Bureau of Labor Statistics^

Availability Rate Trends



Asking Rent Trends (\$/sf)



Incentives Continue to Boost Demand

There is no denying that state incentives and landlord concessions have been the drivers for tenant relocation and the redevelopment of office buildings across Northern New Jersey in the last several quarters. This includes the repositioning of suburban corporate office parks, as well as the development of exciting urban projects like Ironside in Newark.

Earlier this year, Konica Minolta received \$29 million to assist in the consolidation of U.S. operations into a single campus in Ramsey. The flurry of incentive-driven leasing started earlier this year. In May, Mars-Wrigley Confectionary received a \$31.5 million grant tied to its move to Ironside Newark. Additionally, Integra Life Sciences signed a 166,791-sf lease at 1100 Campus Road in Princeton, taking space previously occupied by Novo Nordisk. Integra received a 10-year incentive worth \$17.8 million. This summer, Polo Ralph Lauren Corporation signed a significant lease at the former Hoffman La Roche complex in Nutley. Polo Ralph Lauren will relocate employees from Lyndhurst and Manhattan, to ON3 in Nutley, taking the entire 255,000-sf building at 100 Metro Boulevard. The lease was supported by a \$33-million Grow NJ grant.

Similar to Polo, Teva Pharmaceuticals will shift employees already within New Jersey and from nearby North Wales, Pennsylvania. The Israeli pharma firm will keep 232 positions in Northern New Jersey and create 843 jobs in New Jersey. Teva will move to 400 Interpace Parkway. P3 Properties acquired the former Morris Corporate Center in late 2017 and have rebranded the complex as MCC BLUE.

Slower Going in Jersey City

Incentives were also involved in E-Trade Financial Services' 132,000-sf renewal and expansion at Harborside 2 (200 Hudson Street) in Jersey City. E-Trade was offered \$20 million in tax incentives over a 10-year period to onshore its customer technical services operations located in the Philippines.

This key retention aside, leasing in Jersey City has weakened since early 2017. Tenants in Jersey City do not have the same urgency they did a few quarters ago. They are not rushing to commit to lengthy leases. In a recent quarterly report Mack-Cali stated that "the pace of conversion from prospect to signed lease continues to be a lengthy process." The REIT notes that it has 400,000

sf of expected move-outs in Jersey City.

Jersey City Cools

Leasing in Jersey City has decreased in 2018, but some Manhattan tenants are considering a move across the river as an alternative to space in Midtown Manhattan. Class A rent in Midtown has wobbled a bit in the last few quarters but still typically exceeds \$80/sf, making the sub-\$30/sf rent for prime space (after incentives) in Jersey City attractive. There may be some sense of urgency as the sunset of Grow NJ looms in mid-year 2019. Tenants will not find nearly as many options in Hoboken, where conditions are much tighter. Only one block over 50,000 sf is available, compared to more than twelve such blocks in Jersey City. Landlords are now asking for \$50/sf-plus in Hoboken, compared to a mid-\$30/sf average now for Class A space in Jersey City.

Availability Down Slightly Elsewhere

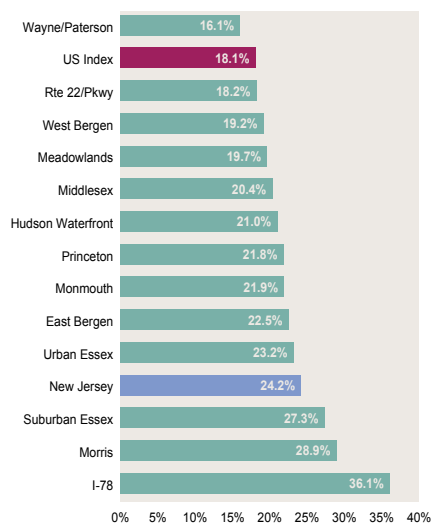
Availability has fallen in both East and West Bergen County. In Paramus, Octapharma leased 63,760 sf at Country Club Plaza II (117 W. Century Road). Growth among life sciences and pharmaceutical companies is also spurring demand in a very tight industrial market. ComboCap leased 50,000 sf at a manufacturing facility in Whippany. The New York-based life sciences tech firm is owned by Binutra Holdings. Additionally, Alvogen Pharma leased 84,609 sf at nearby 44 Whippany. Marcus Partners, which acquired the building in March of 2017 spent \$7 million on capital improvements – adding a new café, fitness center and 95-seat conference center. The building recently signed several other leases, totalling 22,000 sf.

Building renovations remain effective in both tenant retention and attracting new tenants. Grande Commons at 440 Route 22 East in Bridgewater recently secured three leases. Optical switch maker Nistica leased 35,000 sf. Additionally, Japanese pharmaceutical manufacturer Renesas signed a 21,000-sf extension and Ajanta expanded by 8,300 sf. Grande Commons is undergoing a several-million dollar renovation with upgrades to the lobby and common areas, and the addition of a café and fitness center.

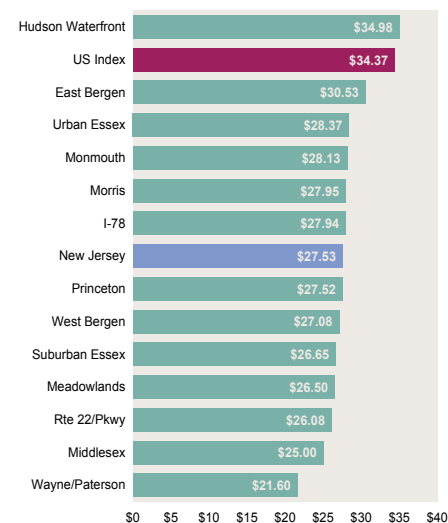
Ample Space Options in Most Areas

The flurry of larger leases has made a dent in availability in some submarkets. Year-to-date net absorption exceeded 2.0 msf through the end of September. Additionally, owners continue to remove some functionally obsolescent product. In Wayne/Paterson,

Availability Rate Comparison



Overall Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
Teva Pharmaceuticals	360,000	400 Interpace Pky	Morris
Polo Ralph Lauren	255,000	100 Metro Blvd	Urban Essex
E-Trade Financial Services	132,000	200 Hudson St	Waterfront
Alvogen Pharma	84,609	44 Whippany Rd	Morris
Octapharma	63,760	117 W Century Rd	West Bergen
Walmart	41,453	121 River St	Waterfront
USI Insurance	35,415	180 Park Ave	Morris
Nistica	35,000	440 Route 22 E	I-78
Brown & Brown	30,000	56 Livingston	Suburban Essex
Wintrust	22,026	1 Newark Ctr	Urban Essex

the overall availability rate fell by 390 basis points. Metropark and Florham Park both remain tight. In a recent relocation from West Orange, USI took 35,415 at 180 Park Avenue.

On the other hand, even though it has fallen below 30%, Morris County still has a bloated 28.8% availability rate. The rate still exceeds 25% in most submarkets and most areas still present tenants with ample big blocks of space.

Additionally, Northern New Jersey's economy continues to lag national trends. Over the last 12 months, office-using employment has fallen by nearly 3,000 jobs (mostly in the financial sector) – a decrease of 0.9%. In comparison, at the national level, office-using employment growth has jumped by 1.9%. Office-using employment does not capture some moderate growth in the pharmaceutical sector. The totals also do not reflect hiring by companies that have pledged to expand payroll or move people

to the region as part of incentive packages.

Employment numbers do not seem to align with leasing, which has spiked in the last few months. In the last two quarters, more than 10 leases of 100,000 sf or more have been completed, compared to no such leases in the prior two quarters. Tenants have responded positively to state incentives as well as generous concessions from landlords. The future for Grow NJ, which expires in 2019, remains anyone's guess. Any substantive change to incentives, without a substitute would likely depress relocation – both by out-of-market tenants and those firms within Northern New Jersey considering a move.

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	410	1,440	-7.2%	1,727	22.5%	-1.7%	27.0%	\$30.53	0.2%	\$25.85
	East Bergen - Class A	4,612	353	1,017	-9.9%	1,184	22.1%	-2.4%	25.7%	\$31.35	-0.6%	\$26.26
2	West Bergen	9,895	680	1,898	-6.6%	2,379	19.2%	-1.3%	24.0%	\$27.08	0.9%	\$27.99
	West Bergen - Class A	5,695	466	1,291	-6.7%	1,527	22.7%	-1.6%	26.8%	\$27.15	0.2%	\$28.26
3	Wayne/Paterson	4,682	221	752	-19.4%	1,161	16.1%	-3.9%	24.8%	\$21.60	-7.9%	\$22.56
	Wayne/Paterson - Class A	3,079	145	636	-19.4%	822	20.6%	-5.0%	26.7%	\$22.04	-6.1%	\$23.37
4	Meadowlands	5,589	267	1,100	-4.7%	1,114	19.7%	-1.0%	19.9%	\$26.50	-2.6%	\$24.75
	Meadowlands - Class A	4,363	243	857	-11.1%	911	19.7%	-2.5%	20.9%	\$27.07	-4.2%	\$27.68
5	Hudson Waterfront	17,933	650	3,769	-4.9%	3,956	21.0%	-1.1%	22.1%	\$34.98	-1.2%	\$39.81
	Hudson Waterfront - Class A	16,935	624	3,711	-4.6%	3,891	21.9%	-1.1%	23.0%	\$34.75	-1.9%	\$40.07
6	Urban Essex	13,099	544	3,040	-10.0%	3,257	23.2%	-2.6%	24.9%	\$28.37	-2.8%	\$29.11
	Urban Essex - Class A	9,294	534	2,143	-13.2%	2,597	23.1%	-3.5%	27.9%	\$29.05	-3.3%	\$29.95
7	Suburban Essex	5,671	86	1,551	-0.3%	1,419	27.3%	-0.1%	25.0%	\$26.65	-0.5%	\$27.91
	Suburban Essex - Class A	4,977	69	1,469	0.1%	1,226	29.5%	0.0%	24.6%	\$27.01	-0.6%	\$28.14
8	Morris	23,302	1,167	6,742	-10.0%	7,509	28.9%	-3.2%	32.2%	\$27.95	-1.3%	\$26.95
	Morris - Class A	18,909	1,024	5,587	-11.3%	6,074	29.5%	-3.8%	32.1%	\$28.97	-1.6%	\$28.23
9	I-78	16,241	590	5,859	2.6%	4,978	36.1%	0.9%	30.6%	\$27.94	1.3%	\$28.00
	I-78 - Class A	14,616	544	5,712	4.7%	4,725	39.1%	1.8%	32.3%	\$28.20	0.7%	\$28.49
10	Route 22/Parkway Corridor	2,052	59	374	30.6%	404	18.2%	4.1%	19.9%	\$26.08	-2.0%	\$27.49
	Route 22/Parkway Corridor - Class A	1,347	47	315	33.9%	342	23.4%	5.6%	25.9%	\$26.42	-2.9%	\$28.09
11	Middlesex	16,405	729	3,340	-6.9%	3,867	20.4%	-1.7%	23.8%	\$25.00	-0.5%	\$25.11
	Middlesex - Class A	13,817	716	2,918	-8.0%	3,444	21.1%	-2.1%	25.2%	\$25.67	-0.7%	\$25.94
12	Monmouth	6,516	88	1,429	-6.6%	1,618	21.9%	-1.4%	24.6%	\$28.13	2.8%	\$29.03
	Monmouth - Class A	3,924	54	813	-9.1%	927	20.7%	-2.1%	23.6%	\$29.83	3.8%	\$31.24
13	Princeton	15,714	541	3,433	-4.1%	3,813	21.8%	-0.9%	24.2%	\$27.52	-0.1%	\$26.96
	Princeton - Class A	12,985	497	3,023	-6.3%	3,370	23.3%	-1.5%	25.9%	\$28.17	-0.7%	\$27.82
1-13	New Jersey Total	143,494	6,031	34,727	-5.5%	37,200	24.2%	-1.4%	25.9%	\$27.53	-0.9%	\$28.58
	New Jersey Total - Class A	114,553	5,315	29,489	-6.0%	31,040	25.7%	-1.7%	27.1%	\$28.18	-1.4%	\$29.48

Please contact us for further information

Rutherford Office

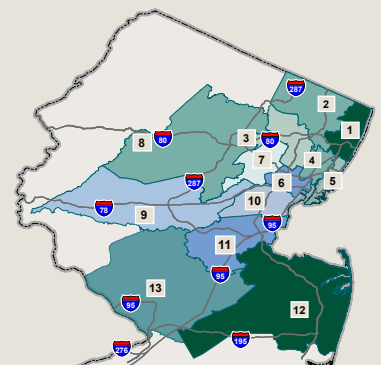
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(1) Percentage point change for availability rates.

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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