MARKET IN MINUTES
Savills Research

Q2 2022 - Office

Northern New Jersey

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Tenants take a breather in Q2, despite strong leasing demand in I-78 submarket

Tenants in Northern New Jersey took a breather in the second quarter of 2022, as economic uncertainty appears to have weighed on leasing decisions. Overall market leasing volume of 1.6 million square feet (msf) in Q2 was down 13.9% from a year ago, and below the pre-pandemic five-year (2015-2019) Q2 average of 2.2 msf. Reversing the trend of last quarter, the I-78 submarket had strong leasing totaling 579,807 sf, which represented 35.9% of total market activity. This was highlighted by several large commitments, including PTC Therapeutics' relocation to 400-500 Warren Corporate Center Drive (349,828 sf) in Warren – a consolidation of three offices elsewhere in New Jersey – and Cellares' new lease at 95 Corporate Drive (118,208 sf) in Bridgewater. However, these large deals were not enough to offset the weakness seen in submarkets such as Middlesex, the Meadowlands and Urban Essex.

Overall availability dips for the fourth straight quarter, asking rents reach new high

Down for the fourth consecutive quarter, overall availability decreased 180 basis points (bps) since the past year to 25.0%, while available sublet supply increased from last quarter and now sits at 8.1 msf. The amount of available sublet supply now accounts for 21.6% of available space, a new peak for the market after increasing from the prior peak of 20.6% set in Q4 2021. The largest addition of sublet space was 200,000 sf put on the market by CIT at 340 Mount Kemble Avenue in Morristown. The overall Class A availability rate of 27.8% is down 110 bps year-over-year and down 50 bps on the quarter, largely attributable to moves from the likes of PTC Therapeutics and others to better quality, premium space. Average asking rents rose 3.8% year-over-year and 2.6% on the quarter to a record high of $30.38 per square foot (psf), as the increased pricing in Class A product offset declines in commodity space, much of which remains unoccupied.

Sales activity through mid-year tracking on par with 2021

Through mid-2022, office sales volume came in at just under $700 million for an average price of $205.99 psf for the total 176 transactions that closed. This puts activity nearly on par with the full year 2021. Although interest rates and the cost of capital are higher now than in 2021, Northern New Jersey continues to attract consistent investment, given the relative stability found in established suburban metros. The top three notable trades include Baupost Group LLC's sale of 200 Metro Boulevard (renovated in 2011), a 332,818-sf office building in the Wayne submarket to Cantor Fitzgerald & Co. for $129.3 million; EQT Exeter's sale of 700 US Highway 202/206 (renovated in 2019), a 143,869-sf office building in I-78 to Maxim Properties for $39 million; and Saxum Real Estate's sale of 427-429 Bloomfield Avenue (the Madison Building – renovated in 2016), a 32,498-sf boutique office building in Urban Essex to Daniel Knoll for $18 million. All properties are 95% to 100% leased and offer up stable returns to investors.

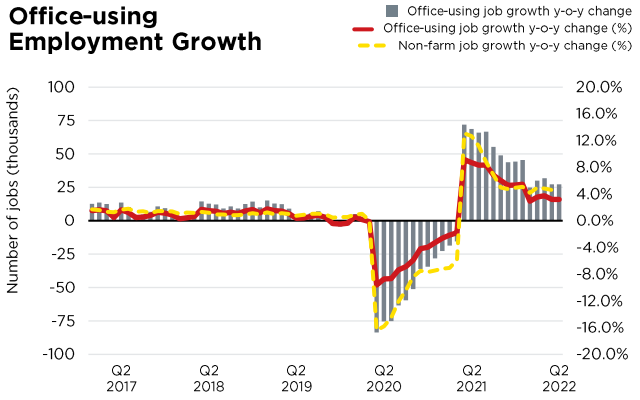
Outlook

- Expect market uncertainty related to inflation, rising interest rates and other geopolitical factors to create headwinds for leasing demand throughout the rest of the year
- Watch for landlords in suburban markets to get aggressive on pricing, should leasing volume not pick up after the summer months.
- Well-leased up, stabilized properties in established suburban markets are expected to remain attractive to investors and potentially make up the majority of full-year trading activity.

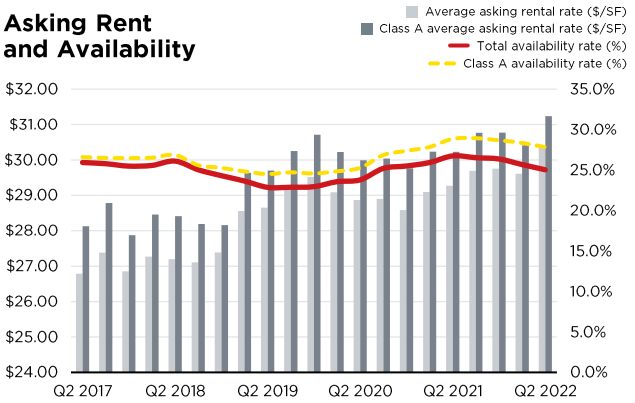
Key Statistics

	Q2 2021	Q2 2022	y-o-y Change
Inventory	149.7 MSF	149.7 MSF	◀▶
Availability Rate	26.8%	25.0%	▼
Asking Rental Rate	$29.27	$30.38	▲
Class A Asking Rental Rate	$30.23	$31.24	▲
Quarterly Leasing Activity	1.9 MSF	1.6 MSF	▼
Available Sublease Space	7.9 MSF	8.1 MSF	▲

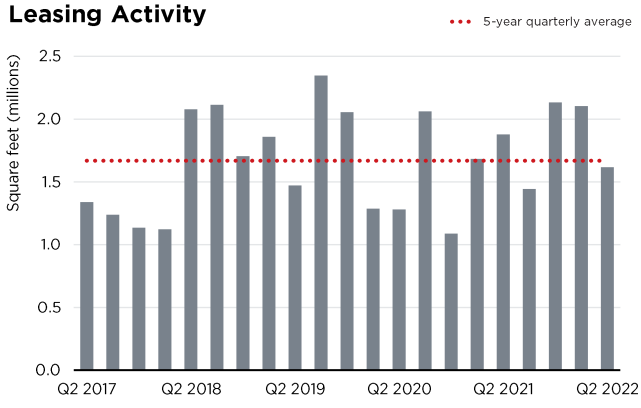
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



By the Numbers

3.4%
Northern NJ unemployment rate (as of May 2022)

3.2%
Office-using employment growth year-over-year (as of May 2022)

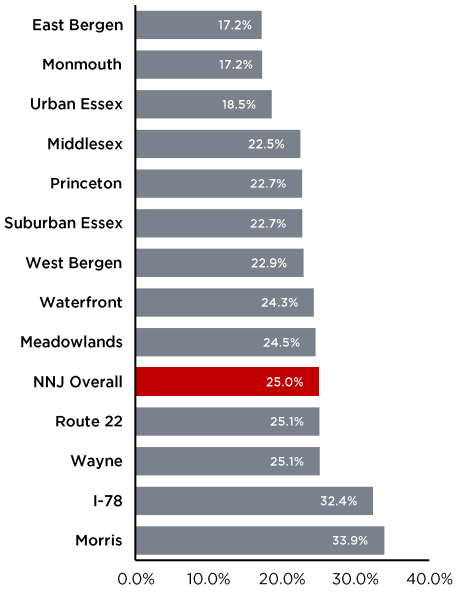
0.6 msf
Office space currently under construction

Top Transactions

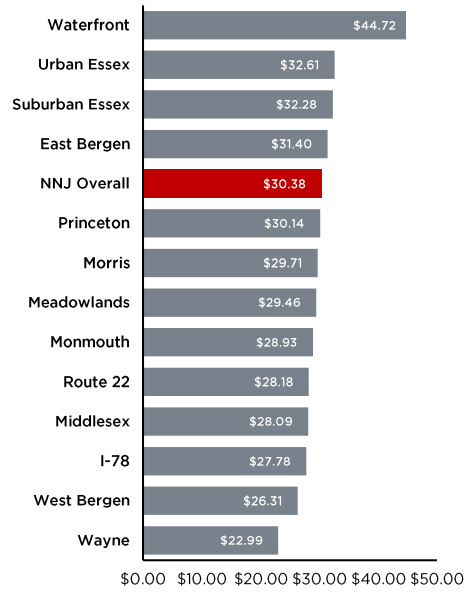
Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
PTC Therapeutics	349,828	400-500 Warren Corporate Center Drive	Relocation	I-78	Pharmaceuticals
Morgan Stanley	120,000	340 Mount Kemble Avenue	Relocation	Morris	Financial Services and Insurance
Cellares	118,208	95 Corporate Drive	New Location	I-78	Pharmaceuticals
Red Bank Veterinary Hospital	100,000	100 Schulz Drive	New Location	Monmouth	Healthcare
Gilead Science	96,300	369 Interpace Parkway	New Location	Morris	Pharmaceuticals
Kyowa	78,464	510 Carnegie Center	New Location	Princeton	Pharmaceuticals
Repligen Corp.	57,485	685 Route 202/206	Expansion	I-78	Pharmaceuticals
embecta	55,600	300 Kimball Drive	New Location	Morris	Pharmaceuticals
Acosta Inc.	32,105	1515 Broad Street	New Location	Wayne	Retail
Invitae	28,000	485 Route 1 S	Renewal	Middlesex	Pharmaceuticals

Source: Savills Research

Availability Rate Comparison (%)
Northern New Jersey Submarkets



Rental Rate Comparison ($/SF)
Northern New Jersey Submarkets



Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills Research.

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