



## Easing restrictions, renewals spark strongest demand in three quarters

As vaccination rates rise and COVID-19 cases drop, the ease in pandemic restrictions has led some occupiers to execute return-to-office plans, resulting in steady increases in physical occupancy. Hints of normalcy unleashed some pent-up demand (caused by delayed leasing decisions during the pandemic), contributing to an 11.6% quarterly increase in leasing activity. With 1.9 million square feet (msf) leased, the second quarter was the strongest since Q3 2020, and leasing activity is up 46.6% over the past year. Renewals and expansions accounted for the majority of transactions, representing 62.8% of volume. Among largest leases signed were Atlantic Health System's 553,000-sf renewal and expansion at 435, 465 and 475 South Street in the Morris submarket and QualCare, Inc.'s 145,430-sf renewal at 30 Knightsbridge Road in the Middlesex submarket. Another bright spot for the market was WebMd's 101,117-sf lease at 2 Gateway Center in Newark's Urban Essex submarket. The health information provider is relocating from Manhattan, bringing 600 to 700 jobs to the market.

### Supply-demand imbalance causes availability to soar

Despite an increase in leasing activity, recent demand has not yet offset rising supply. Overall availability increased 80 basis point (bps) to 26.7%, marking the eighth-consecutive quarterly increase, and is up 290 bps over the past year. Availability continues to be significantly impacted by sublease supply, which has swelled by 35.5% over the year to reach 7.9 msf and now represents 19.8% of all available space, up from 16.6% a year ago. Over the same period, direct available space increased by a more modest 9.0% (32.1 msf). Recent sublet additions include 215,000 sf from Allergan in the Morris submarket at 5 Giralda Farms in Madison, 122,000 sf from Ralph Lauren in the Wayne submarket at 100 Metro Boulevard in Nutley, 121,000 sf from LG in the East Bergen submarket at 111 Sylvan Avenue in Englewood Cliff, and 118,000 sf from Eisai in the West Bergen submarket at 155 Tice Boulevard in Woodcliff Lake.

### Overall asking rents hold firm despite increasing availability

Even as availability increased, asking rents saw little change over the quarter, now at \$29.26 per square foot (psf). Class A rents also held flat at \$30.23 psf. The Wayne submarket saw the largest increase in asking rates, up 4.3% over the quarter to \$23.14 psf, while the Suburban Essex submarket dipped 6.6% to \$27.43, the largest drop in the market. While landlords have held firm on asking rents, concessions on long-term leases have increased with tenant improvement allowance averaging in the mid \$60s and free rent averaging 12 to 15 months.

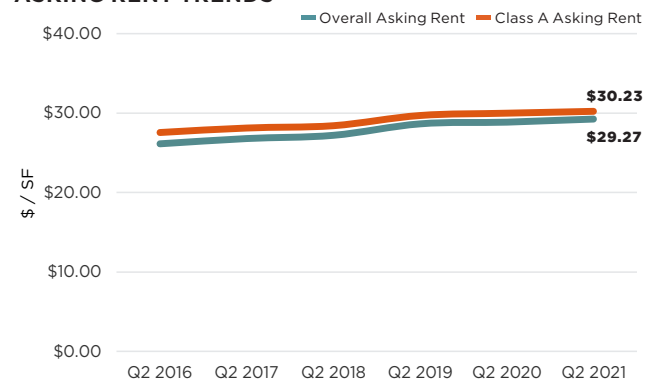
### Outlook

- Additional pent-up demand could lead to increased leasing activity in the near-term, particularly from the Pharmaceutical and Life Science industries
- Northern New Jersey may experience long-term shifts in fundamentals as some occupiers lean into hybrid or blended models, making conditions even more favorable for occupiers
- Asking rents will continue to remain significantly below nearby Manhattan, allowing the market to remain an affordable alternative for cost-conscious occupiers

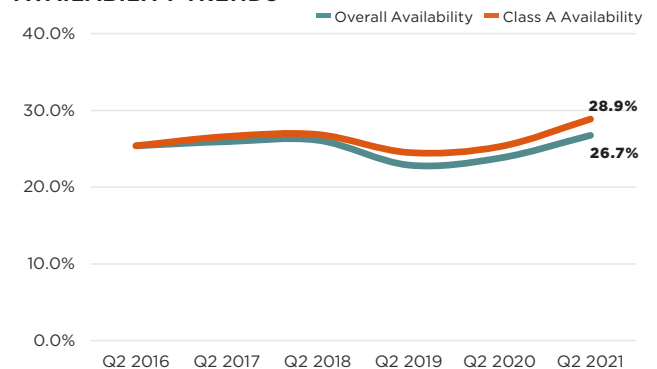
### KEY STATISTICS

|                            | Q2 2020   | Q2 2021          | y-o-y Change |
|----------------------------|-----------|------------------|--------------|
| Inventory                  | 148.4 MSF | <b>149.5 MSF</b> | ▲            |
| Availability Rate          | 23.8%     | <b>26.8%</b>     | ▲            |
| Asking Rental Rate         | \$28.87   | <b>\$29.27</b>   | ▲            |
| Class A Asking Rental Rate | \$29.99   | <b>\$30.23</b>   | ▲            |
| Quarterly Leasing Activity | 1.3 MSF   | <b>1.9 MSF</b>   | ▲            |

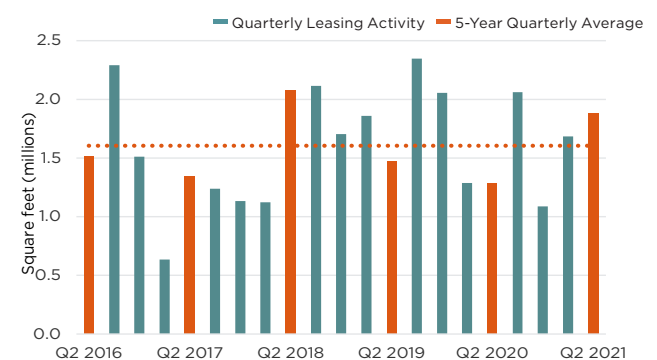
### ASKING RENT TRENDS



### AVAILABILITY TRENDS



### LEASING ACTIVITY



MAJOR TRANSACTIONS

74.1%

of major transactions were **new** transactions by square footage

49.5%

of large transactions occurred in the **Morris** submarket by square footage

62.1%

**Healthcare** sector tenants represented 62.1% of major transactions by square footage

| Tenant                        | Square feet | Address                          | Transaction type      | Submarket   | Industry           |
|-------------------------------|-------------|----------------------------------|-----------------------|-------------|--------------------|
| Atlantic Health System        | 533,000     | 435, 465 & 475 South Street      | Renewal               | Morris      | Healthcare         |
| QualCare, Inc.                | 145,430     | 30 Knightsbridge Road            | Renewal               | Middlesex   | Healthcare         |
| WebMD                         | 101,117     | 2 Gateway Center                 | New Location          | Urban Essex | TAMI               |
| Infinity Biologix             | 97,948      | 30 Knightsbridge Road            | New Location          | Middlesex   | Pharmaceuticals    |
| Qualcomm                      | 95,579      | 500 Somerset Corporate Boulevard | Renewal               | I-78        | TAMI               |
| Michael Kors                  | 43,353      | 1 Meadowlands Plaza              | Renewal               | Meadowlands | Retail             |
| Managed Healthcare Associates | 39,060      | 25 Vreeland Road                 | Renewal and Expansion | Morris      | Healthcare         |
| HSBC                          | 38,736      | 545 Washington Boulevard         | Renewal               | Waterfront  | Financial Services |
| Apprentice.IO                 | 31,960      | 101 Hudson Street                | Relocation            | Waterfront  | TAMI               |
| Signify                       | 28,675      | 400 Crossing Boulevard           | New Location          | I-78        | Manufacturing      |

Source Savills Research

For more information, please contact us:

**Savills**

The Meadows  
201 Route 17 North,  
Suite 902  
Rutherford, NJ 07070  
+1 201 556 9700

**Gregg K. Najarian**

Vice Chairman  
gnajarian@savills.us

**Danny Mangru**

Research Director  
dmangru@savills.us

**Lesley Kamnitzer**

Senior Research Manager  
lkamnitzer@savills.us

**Will Joumas**

Senior Research Analyst  
wjoumas@savills.us

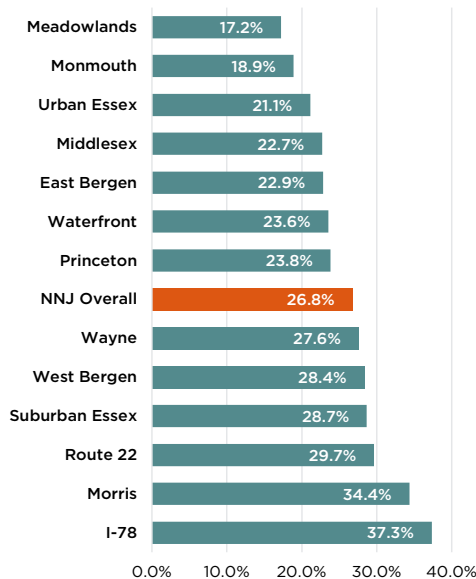
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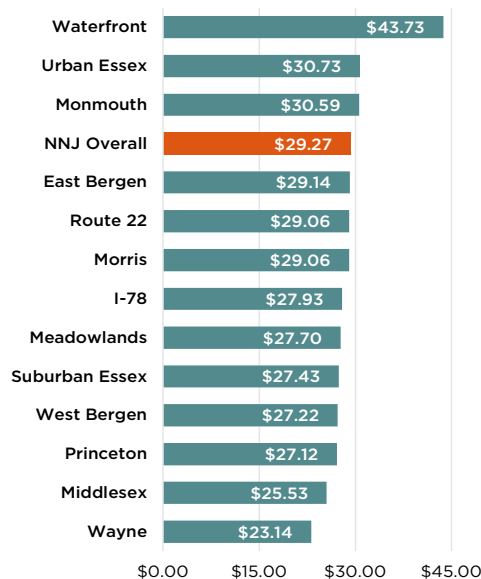
AVAILABILITY RATE COMPARISON

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 (psf). 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.

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