



Offices reopen as restrictions begin to ease

COVID-19 forced many New Jersey business to transition to remote work scenarios in March 2020, but organizations are now cautiously welcoming employees back into their offices as the state continues to reopen in stages. While the difficulty of social distancing on public transportation poses a particular risk to certain submarkets like the Waterfront, the overall market is better positioned to execute return to work plans due to its reliance on personal vehicle commutation. As a result, the New Jersey office market may be considered as a suitable alternative for Manhattan-based tenants looking to relocate or redistribute their workforces. Select submarkets including Morris and Suburban Essex have seen increased demand from short-term requirements from New York City, as key stakeholders reside in these communities.

Leasing persists as operating fundamentals remain stable

Despite the governor's stay at home order, leasing activity during the second quarter registered only a modest dip from Q1 to 1.3 million square feet (msf) as tenants remained focused on long-term needs rather than making reactionary decisions. The Urban Essex submarket accounted for more than 18.0% of leasing activity during Q2, led by law firm McCarter & English's 117,300-sf extension in Newark. Adopting a wait-and-see approach, landlords largely held firm on asking rents, with the market's overall and Class A asking rents both down just 0.8% for the quarter to \$28.87 per square foot (psf) and \$29.99 psf, respectively. The Waterfront submarket experienced the largest quarterly swing in rents with asking rates dropping 2.5%. Overall availability in the market reached its highest rate since Q4 2018, rising 20 basis points to 23.8%. The West Bergen submarket experienced the most significant quarterly increase with the addition of 209,000 sf of direct space, pushing availability up 290 bps to 25.2%. Additionally, the addition of 207,000 sf of sublet space from Sanofi pushed the I-78 submarket's availability rate up 70 bps to 29.1%, with the rest of the campus expected to become available for sublet in coming quarters.

Landlords seek to attract and retain key tenants

Some leasing decisions have been delayed due to the pandemic, but many are expected to resume as businesses shift out of crisis mode. High-quality creditworthy tenants may even receive increased incentives from landlords that are eager to push leases across the finish line and secure reliable cash flows. Likely recipients include AIG and Merck, which are both expected to finalize significant deals along the Waterfront by the end of 2020.

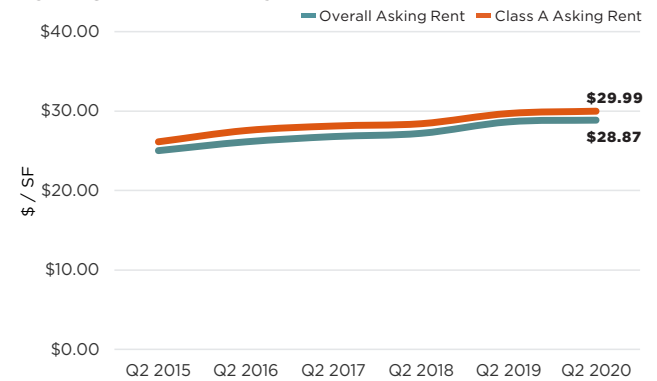
Outlook

- Increased demand may arise as certain tenants look to shift to a hub and spoke workforce distribution and take advantage of the discount relative to Manhattan rents
- Widespread repricing for direct space is unlikely, especially as occupiers consider relocating or opening satellite offices
- Sublet supply may push up availability as cost-conscious tenants look to shed space

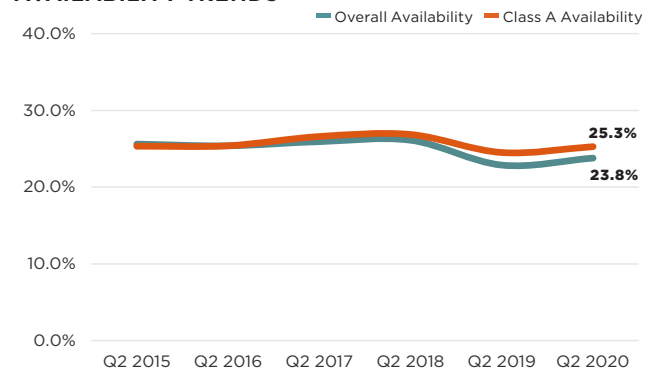
KEY STATISTICS

	Q2 2019	Q2 2020	y-o-y Change
Inventory	145.7 MSF	148.3 MSF	▲
Availability Rate	22.9%	23.8%	▲
Asking Rental Rate	\$28.65	\$28.87	▲
Class A Asking Rental Rate	\$29.70	\$29.99	▲
Quarterly Leasing Activity	1.5 MSF	1.3 MSF	▼

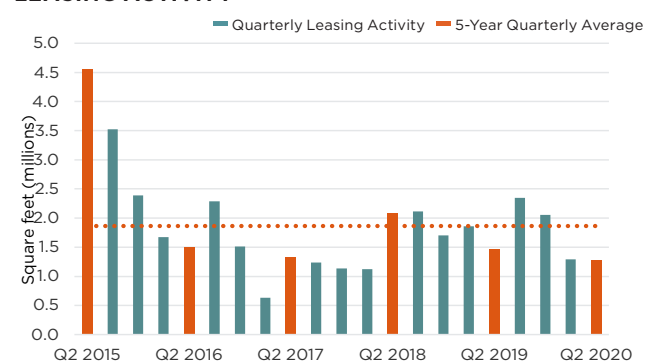
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

56.1%

of major transactions were **renewals**

28.4%

of large transactions occurred in **Urban Essex** submarket

23.3%

Energy sector tenants represented 23.3% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
New Jersey Resources Corporation	157,511	1415 Wyckoff Road	Renewal	Monmouth	Energy
McCarter & English, LLP	117,300	4 Gateway Center	Renewal	Urban Essex	Legal Services
Audible	75,000	33 Washington Street	Expansion	Urban Essex	TAMI
Hartz Mountain Industries	54,211	500 Plaza Drive	New Location	Meadowlands	Real Estate
Kiewit Infrastructure	53,730	470 Chestnut Ridge Road	Renewal	West Bergen	Engineering
Dell EMC	50,862	184 Liberty Corner Road	Renewal	I-78	TAMI
Hackensack Meridian Health	48,476	399 Thornall Street	New Location	Middlesex	Healthcare
Getinge US	44,280	1 Geoffrey Way	Relocation	Wayne	Pharmaceuticals
Blue Foundry Bank	41,269	7 Sylvan Way	Relocation	Morris	Financial Services
Bobst North America Inc.	33,910	10 Waterview Boulevard	Relocation	Morris	Retail

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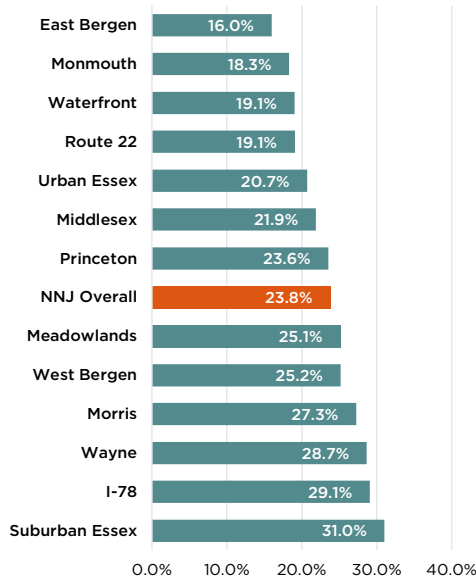
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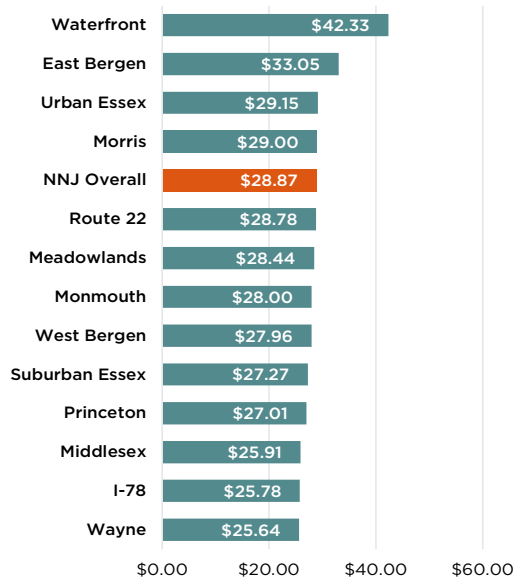
AVAILABILITY RATE COMPARISON

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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