



New Jersey office market shows signs of weakness despite a handful of large deals

As New Jersey entered its second full quarter under the shadow of the COVID-19 pandemic, uncertainty surrounding future demand for office space persisted. Select leasing and sales transactions in the pipeline before the pandemic closed during the third quarter after months of stagnation, driven by lower net effective rents, greater lease flexibility and more favorable terms. Marking the region's largest lease since 2016, pharmaceutical company Eisai closed a 332,818-square-foot (sf) deal to relocate to 200 Metro Boulevard in Prism Capital Partners' ON3 redevelopment. Additionally, Mack-Cali closed their \$160 million, 10-building sale of suburban offices to a joint venture led by Onyx Equities, the second large portfolio trade between the landlords since 2017, while AIG closed the sale of a 471,000-sf Metropark office tower in the Middlesex submarket to Opal Holdings for \$140 million.

Pre-COVID pipeline deals fuel increase in leasing

As many large deals negotiated before COVID-19 were nudged across the finish line, leasing activity during the quarter totaled 2.1 msf, up 60.9% from the 1.3 msf leased during Q2. Accounting for 29.1% of the market's leasing activity, the Waterfront logged its highest quarterly leasing total since Q3 2016, led by a pair of leases from AIG and Merck's Organon & Co. for a combined 338,000 sf at Goldman Sachs' 30 Hudson Street. In addition, BNP Paribas closed its 152,448-sf renewal at 525 Washington Boulevard during the quarter.

Availability continues to rise, while asking rents hold steady

While the level of available sublease space continues to rise, the region's availability rate ticked up 140 basis points (bps) during the quarter to 25.2%, the highest level since Q2 2018 and an increase of 230 bps from last year. The Waterfront's availability rate experienced an increase of 340 bps to reach 22.5%, largely due to the addition of 422,000 sf at 150 Hudson Street in Jersey City. Overall asking rents remained largely unchanged during Q3 but decreased 1.1% annually to \$28.90 per square foot (psf). Meanwhile Class A asking rents held flat in Q3, now at \$30.04 psf, marking a nominal 0.7% decrease over the past year. Asking rents in the Waterfront, which represent a 55.7% premium to the overall market, increased by 6.3% over the quarter to \$45.01. Though asking rents are holding firm, the addition of lower-priced sublease options is likely to drive overall asking rents downward in the coming quarters.

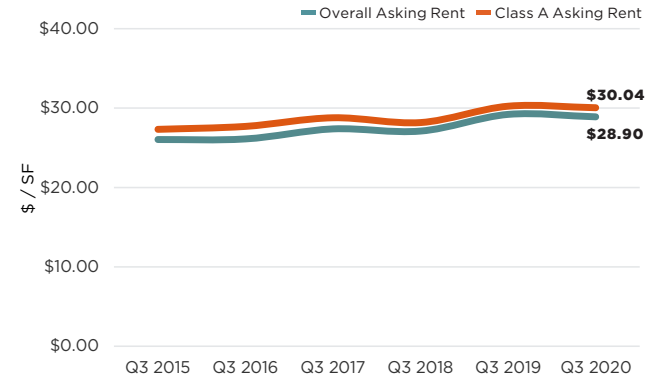
Outlook

- Demand may be muted through the remainder of the year as most leases negotiated before the pandemic have now closed
- An increase of sublet space may push up availability over the near term
- Asking rents may continue to see little change given reluctance to reprice space, yet net effective rents are expected to continue declining due to limited new demand and competition from sublease space

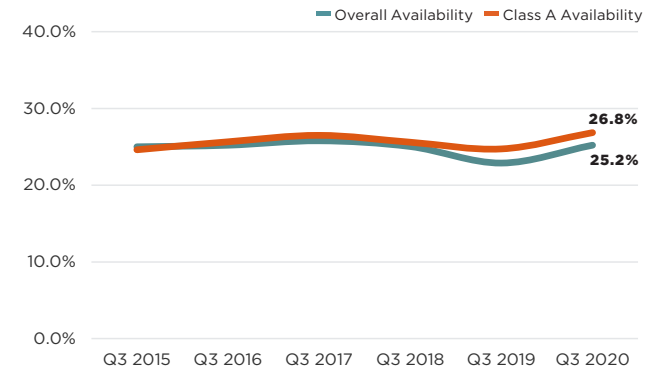
KEY STATISTICS

	Q3 2019	Q3 2020	y-o-y Change
Inventory	145.7 MSF	148.3 MSF	▲
Availability Rate	22.9%	25.2%	▲
Asking Rental Rate	\$29.21	\$28.90	▼
Class A Asking Rental Rate	\$30.25	\$30.04	▼
Quarterly Leasing Activity	2.3 MSF	2.1 MSF	▼

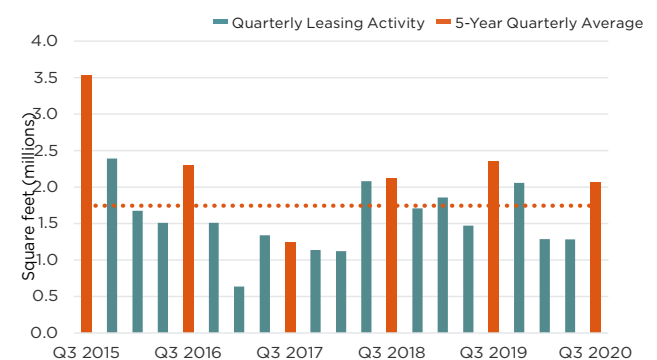
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

46.0%

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

44.6%

of large transactions occurred in **Waterfront** submarket by square footage

31.2%

Financial Services tenants represented 31.2% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Eisai Inc	332,818	200 Metro Boulevard	Relocation	Wayne	Pharmaceuticals
AIG	227,852	30 Hudson Street	Relocation	Waterfront	Financial Services
BNP Paribas	152,448	525 Washington Boulevard	Renewal	Waterfront	Financial Services
Organon & Co	110,000	30 Hudson Street	New	Waterfront	Pharmaceuticals
Brother International Corp	103,326	200 Crossing Boulevard	Renewal	I-78	Retail
LIXIL Corp.	63,016	30 Knightsbridge Road	New	Middlesex	Manufacturing
Ernst & Young	62,029	99 Wood Avenue S	Renewal	Middlesex	Professional Services
OwnBackup	61,525	940 Sylvan Avenue	Renewal and Expansion	East Bergen	TAMI
Englewood Health	53,222	2 Journal Square	New	Waterfront	Healthcare
Bressler Armery & Ross	51,806	325 Columbia Turnpike	Renewal	Morris	Legal Services

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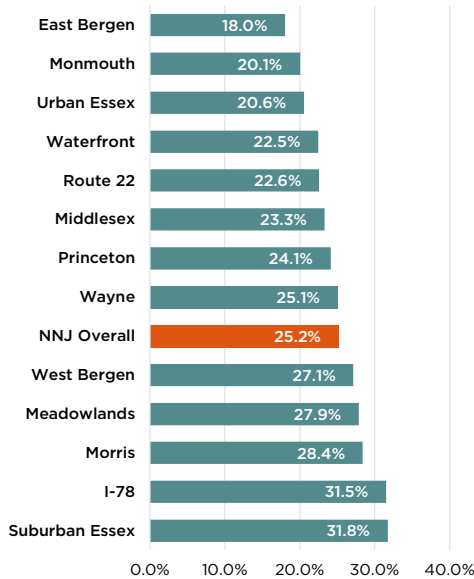
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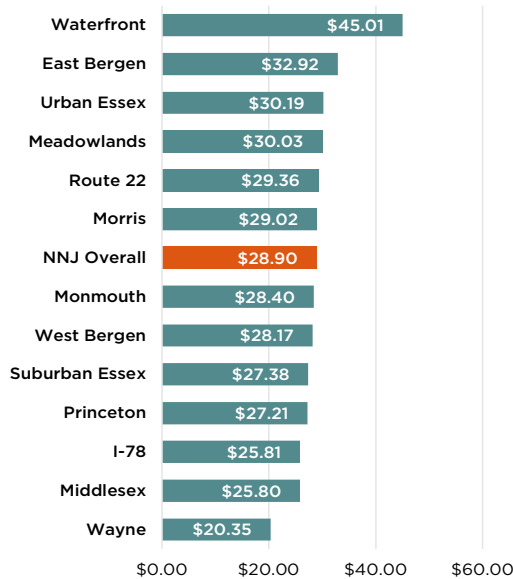
AVAILABILITY RATE COMPARISON

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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