Leasing outpaces 2018 volume, sees strongest annual total since 2015

The Northern New Jersey office market registered its strongest fourth-quarter leasing total since 2015 with 2.1 million square feet (msf) of activity, pushing total 2019 leasing to 7.7 msf. This marks an 8.0% yearly increase. A pair of renewals led activity with BNY Melon's subsidiary Pershing LLC re-signing for 408,449 square feet (sf) at Columbia Property Trust's 95 Columbus in Jersey City (Waterfront submarket), and British consumer goods company Reckitt Benckiser signing a renewal and expansion at Latitude East in Parsippany (Morris submarket) for 187,000 sf. Availability has held flat at a rate of 22.9% since the second quarter, but strong annual leasing contributed to a 170-basis-point drop in availability over the year. Asking rents rose 4.9% annually to $29.53 per square foot (psf) but are up just 0.2% from the third quarter.

Tenants demonstrate strong demand for high-end space

Class A product continues to drive the market, comprising more than 75.0% of the Northern New Jersey inventory. Tenant demand for quality space persists, helping to drop the availability rate for Class A assets to 24.6%, an 80-basis-point decline year over year. Nine of the top 10 leasing transactions during the fourth quarter, as well as nearly 80.0% of leasing activity, were within Class A assets. Landlords appear to be cashing in on investments to keep their Class A offices well-positioned. Vision Real Estate Partners and Rubenstein Partners, who are renovating and rebranding their 700,000-sf Parsippany complex (formerly known as Morris Corporate Center IV) to Latitude East, signed two large leases in the fourth quarter including Reckitt Benckiser’s renewal and Sax LLP’s 39,810-sf relocation.

Legacy landlord dispositions led to increased sales activity

Investment sales activity jumped by 12.0% in 2019 to $2.2 billion as long-term New Jersey office owners sold off targeted office assets to reposition their portfolios. In December, Mack-Cali announced the divestiture of its entire six-million-square-foot suburban office portfolio which it hopes to complete in 2020 in order to concentrate on Waterfront assets. To start, Onyx Equities, Taconic Capital Advisors and Axonic Capital agreed to pay $285 million for two of the suburban properties. Additionally, LeFrak recently closed the $372 million sale of its 866,706-sf Newport Office Centre IV in Jersey City to Harbor Group International. This follows the sale of LeFrak’s Newport Office Center VI (350,000 sf) for $170 million to iStar in March 2019.

Outlook

- Tenants are expected to have increased leverage as availability remains above 20.0%; leasing will continue to concentrate around Class A assets
- The expired NJ Grow incentives program has yet to be renewed and a replacement is not imminent; a lack of incentives could prevent tenants from choosing to lease office space in New Jersey
- New landlords may make waves as they implement new investment strategies
MAJOR TRANSACTIONS

63.6% of major transactions were renewals

39.2% of large transactions occurred in Waterfront submarkets

45.6% Financial Services represented 45.6% of major transactions

<table>
<thead>
<tr>
<th>Tenant</th>
<th>Square feet</th>
<th>Address</th>
<th>Transaction type</th>
<th>Submarket</th>
<th>Industry</th>
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<tbody>
<tr>
<td>Pershing LLC</td>
<td>408,449</td>
<td>95 Christopher Columbus Drive</td>
<td>Renewal</td>
<td>Waterfront</td>
<td>Financial Services</td>
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<td>Reckitt Benckiser LLC</td>
<td>187,000</td>
<td>389 &amp; 399 Interpace Parkway</td>
<td>Renewal</td>
<td>Morris</td>
<td>Manufacturing</td>
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<tr>
<td>Promotion in Motion</td>
<td>110,945</td>
<td>225 Brae Boulevard</td>
<td>Relocation</td>
<td>West Bergen</td>
<td>Manufacturing</td>
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<td>DSV Air &amp; Sea Inc.</td>
<td>97,500</td>
<td>200 Wood Avenue S</td>
<td>Relocation</td>
<td>Middlesex</td>
<td>Transportation</td>
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<tr>
<td>BNP Paribas</td>
<td>66,226</td>
<td>485 Route 1 S</td>
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<td>Middlesex</td>
<td>Financial Services</td>
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<td>Sax LLP</td>
<td>39,830</td>
<td>389 Interpace Parkway</td>
<td>Relocation</td>
<td>Morris</td>
<td>Professional Services</td>
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<td>Bristol-Myers Squibb</td>
<td>37,113</td>
<td>7 Roszel Road</td>
<td>New Location</td>
<td>Princeton</td>
<td>Pharmaceuticals</td>
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<td>LifeTime Work</td>
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<td>New Location</td>
<td>I-78</td>
<td>Coworking</td>
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<td>Salix</td>
<td>31,422</td>
<td>10 Lanidex Plaza W</td>
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<td>Professional Services</td>
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<td>OwnBackup</td>
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<td>940 Sylvan Avenue</td>
<td>New Location</td>
<td>East Bergen</td>
<td>TAMI</td>
</tr>
</tbody>
</table>

Source: Savills Research

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