

COVID-19 disruptions shut down northern NJ office market

Governor Phil Murphy enacted a stay-at-home order for New Jersey on Saturday, March 21st to help stop the spread of COVID-19. Office occupiers implemented remote-work policies as all non-essential businesses were forced to close. But with many industries unable to operate remotely, local and nationwide unemployment soared with unprecedented velocity. U.S. Congress reacted by passing The CARES Act to provide emergency assistance and health care response for individuals, families, and businesses affected by the pandemic. While this stimulus package may partially offset the immediate economic impact of the shutdown, it remains too early to predict the long-term effect, especially on the office market.

Leasing cools as uncertainty abounds

During the first quarter of 2020, leasing activity in the market measured 1.3 million square feet (msf), the lowest total since Q1 2018 and a 37.4% decline from the 2.1 msf leased during Q4 2019. However, some submarkets signed key leases before the mandated shutdown. The Urban Essex submarket recorded the largest quarterly increase in activity, up 125.7% to 97,360 sf as two leases totaling 60,718 square feet (sf) were completed at Two Riverfront Plaza and Gateway Center in Newark. In the Meadowlands submarket, leasing activity jumped 39.4% to 97,906 sf as two of the market's largest leases were signed. Muted tenant demand throughout the market, however, contributed to increasing availability during the quarter. The market's availability rate ticked up 70 basis points to 23.6% but remains below the recent high of 23.7% registered during Q1 2019 and the 10-year average of 24.5%. During the quarter, average asking rents decreased by 1.5% to \$29.09, but remained up 1.7% year over year.

Select industries are better positioned

As office tenants cautiously analyze their operations and manage their real estate commitments, leasing activity is likely to continue declining in the near term. Landlords are expecting decreases in cash flows due to surges in non-payments, limited new leasing, and possible additional capital required to update offices to post-COVID-19 standards. Demand for a therapeutic response to the pandemic may bolster the market's large pharmaceutical industry, but occupiers in other key industries such as professional services and hospitality may be forced to modify their office space requirements as they contend with revenue losses.

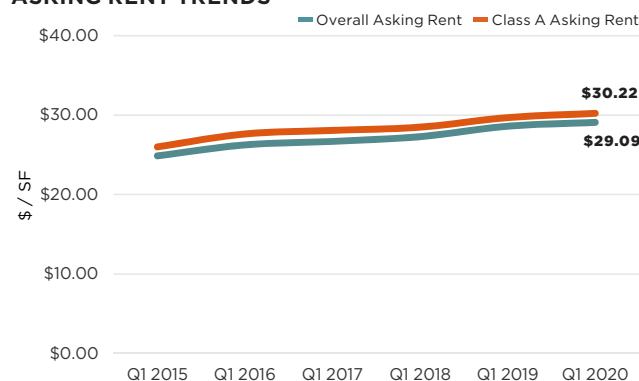
Outlook

- Many occupiers will pause searches for office space as stay-at-home orders remain in effect
- Credit tenants may look to sign early renewals or blend-and-extends at discounted rates
- Tenants in the hardest-hit industries will look to cut costs by shedding space or negotiating with landlords, while some may cease to exist

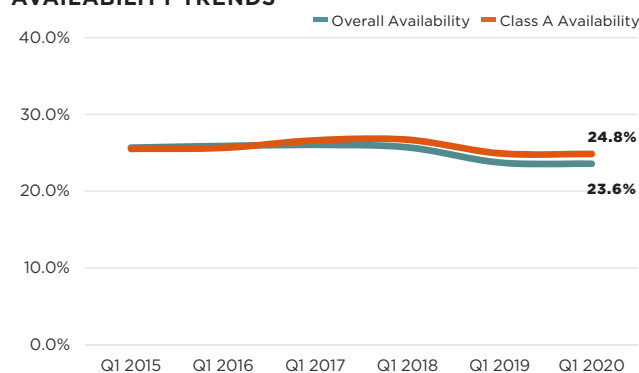
KEY STATISTICS

	Q1 2019	Q1 2020	y-o-y Change
Inventory	145.7 MSF	148.5 MSF	▲
Availability Rate	23.7%	23.6%	▼
Asking Rental Rate	\$28.60	\$29.09	▲
Class A Asking Rental Rate	\$29.69	\$30.22	▲
Quarterly Leasing Activity	1.9 MSF	1.3 MSF	▼

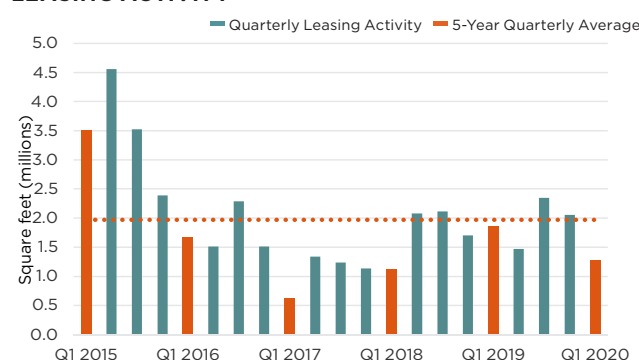
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

39.9%

of major transactions were **relocations**

23.4%

of large transactions occurred in **Morris** submarket

20.1%

Healthcare represented 20.1% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Hackensack Meridian Health	115,000	399 & 499 Thornall Street	Renewal & Expansion	Middlesex	Healthcare
Deloitte	110,000	66 Morris Street	Relocation	Morris	Professional Services
John P. Holland Charter School	100,000	5 Garret Mountain Plaza	New Location	Wayne	Education
Huber+Suhner	66,413	40 Technology Drive	Relocation	I-78	TAMI
AXA	41,865	500 Plaza Drive	Renewal	Meadowlands	Financial Services
Unoeng	37,155	2 Riverfront Plaza	New Location	Urban Essex	Engineering
Imperial Dade	28,756	5901 West Side Avenue	Relocation	Meadowlands	Manufacturing
Venture One Real Estate	26,800	250 Pehle Avenue	Renewal	West Bergen	Real Estate
Simon Premium Malls	24,000	60 Columbia Road	Renewal	Morris	Real Estate
Landman Corsi Ballaine & Ford PC	23,563	One Gateway Center	Relocation	Urban Essex	Legal Services

Source Savills Research

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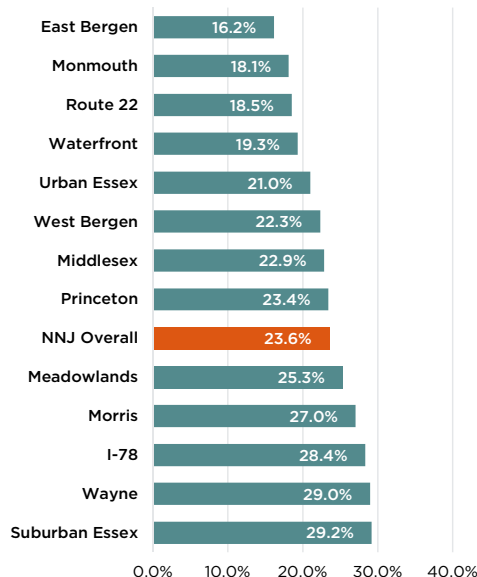
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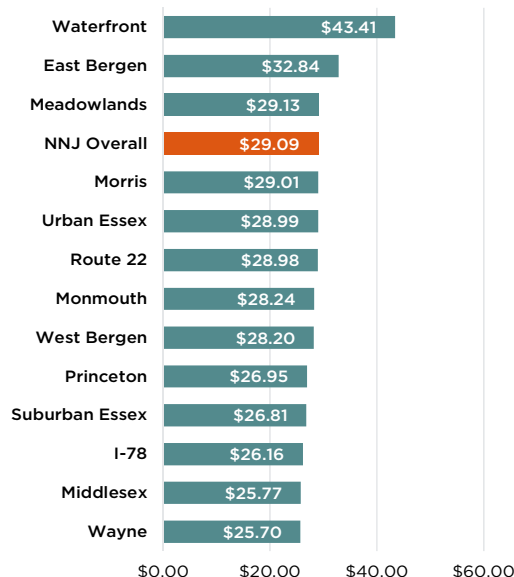
AVAILABILITY RATE COMPARISON

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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