

INVESTMENT FORECAST

Office
Northern New Jersey

IPA

INSTITUTIONAL
PROPERTY
ADVISORS






2022

Corporate Arrivals and Mild Pipeline Bolster Outlook; Suburban Office Revival Varies By Locality

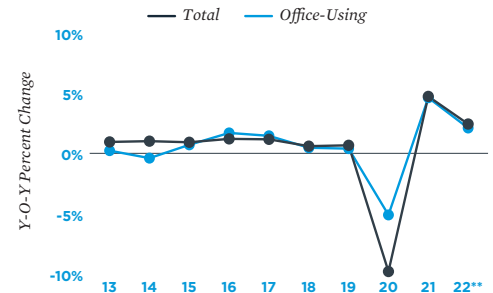
Stage set for steady upward growth. Contrasting many other regional markets, Northern New Jersey's office fundamentals remained relatively stable throughout the health crisis. At maximum, the local average asking rent fell just 1.3 percent below its immediate pre-pandemic level, and it is expected to surpass its previous peak by the end of this year. Solid fundamentals can be attributed in part to a comparatively restrained construction pipeline. After only 343,000 square feet of space was completed last year, delivery volume in 2022 is expected to remain under the trailing decade average, with 530,000 square feet finalized by the end of the fourth quarter. Meanwhile, office demand is buoyed by New Jersey's proactive tax incentive offerings, helping fuel a wave of corporate relocations and commitments to facility upgrades concentrated in the region's suburban core. Firms including Fiserv and Quest Diagnostics made agreements to significantly expand area offices and local headcounts, with Party City confirming a planned relocation to the market from its current campus in New York. Renewed interest in suburban stock is poised to benefit the metro, especially inland business districts away from the Hudson waterfront.

Tenant trends fuel investor optimism. Despite stable fundamentals, the ongoing health crisis has suppressed office usage and sparked investor concern over future space demand. While trading velocity across the metro is still under pre-pandemic norms, shifting tenant preferences for space in suburban areas may turn this around. The rush of interest in suburban office stock will help mitigate downward pressure on overall investment activity, though not all properties benefit equally. Submarkets with large concentrations of older complexes and low walkability are providing buyers with cap rates in the low- to mid-8 percent range. Elsewhere, properties in high-end suburban districts record first-year returns in the high-5 to low-6 percent band as investors react to tenants' flight-to-quality. However, further sales recovery in these areas may be impacted by the emergence of new COVID-19 variants.

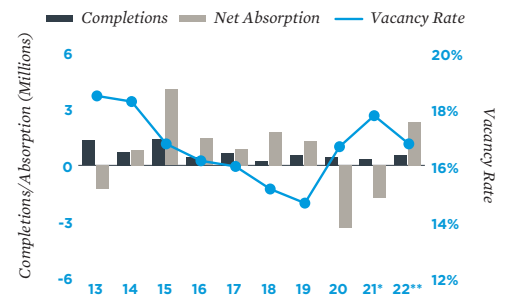
2022 Market Forecast

- Employment** up 2.4%  Employers are expected to fill 50,000 positions in Northern New Jersey as economic recovery efforts continue in 2022.
- Construction** 530,000 sq. ft.  This year's construction pipeline increases by 187,000 square feet after a slow 2021 delivery schedule, but most of the square footage is concentrated in one Morristown development.
- Vacancy** down 100 bps  Positive net absorption is registered for the first time since 2019 as demand for office space improves, lowering metro vacancy to 16.8 percent.
- Rent** up 1.0%  After maintaining an upward trajectory throughout 2021, the average asking rent is expected to close this year at a new market high of \$26.50 per square foot.
- Investment**  Investors seeking traditional office properties will look for deals in suburban locales like Summit and Montclair where clusters of upper-tier office parks exist.

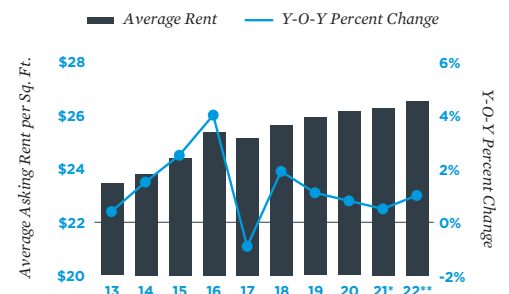
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.