

MARKET REPORT

Office
Northern New Jersey Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

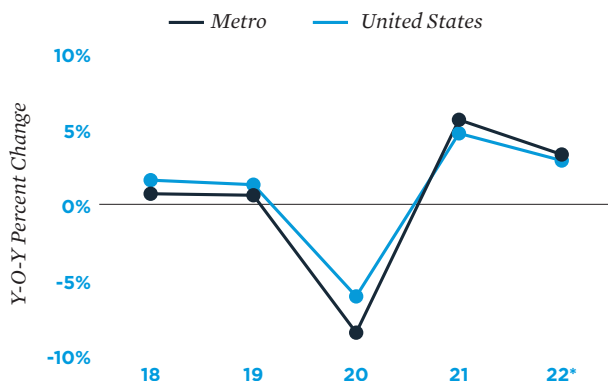
4Q/22

Tax Abatements Draw More Business to the Garden State, High-Quality Stock Stands to Benefit

State policy and deep labor pool facilitate larger leases. Proactive tax incentives from the New Jersey government are prompting office-using firms from diverse sectors to relocate here. In September, L'Oréal announced a \$140 million research and development facility to be completed some time in 2024, showcasing the market's growing pharmaceutical industry. More traditional signings in this category include Gilead and Embecta, both signing 50,000-plus-square-foot leases for suburban headquarters in Parsippany this year. In nearby Morristown, Deloitte and Morgan Stanley are moving into offices exceeding 100,000 square feet before the end of 2022.

Amenity-rich properties begin to regain footing. Northern New Jersey's office market is on track to record its first calendar year of positive net absorption since 2019, with Class A demand leading the way. Leasing in this segment largely favors office campuses and parks offering proximity to suburban amenities and commuter thruways. Older, more isolated properties in this sector may face difficulty capturing tenants, with some of these assets targeted for redevelopment. Though Class A vacancy is still 510 basis points higher than the pre-pandemic level as of July, tapering traditional office construction should mitigate further upward pressure on availability. The region's active pipeline totaled roughly 950,000 square feet as of September, but more than two-thirds of this space is exclusively medical office. Furthermore, pre-leasing rates on standard office space exceed 60 percent, reducing the impact of this supply.

Employment Trends



* Forecast
Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook

70,000
JOBS
will be created

EMPLOYMENT:

A 3.3 percent expansion will bring the metro's total employment base near the pre-pandemic mark. Traditional office-using employers are hiring more slowly, having recouped all losses last year. These firms will add 6,000 jobs in 2022, a 1.0 percent growth rate.

450,000
SQ. FT.
will be completed

CONSTRUCTION:

Developers are projected to expand stock by a tepid 0.2 percent this year. Less than 200,000 square feet of this year's deliveries are traditional office properties, with medical office comprising the remaining space.

10
BASIS POINT
decrease in vacancy

VACANCY:

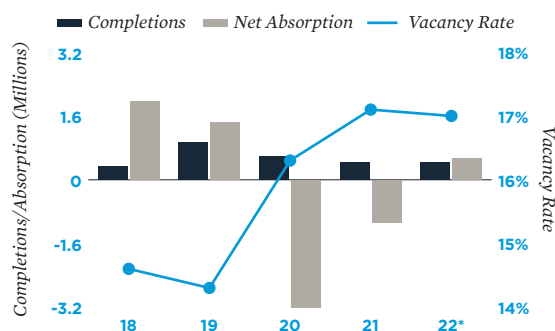
Availability will decline modestly to 17.0 percent, compressing for the first time since 2020. Class A leasing should be responsible for most of this year's absorption, as firms are betting on amenity-rich facilities to entice employees back to the office.

0.2%
INCREASE
in asking rent

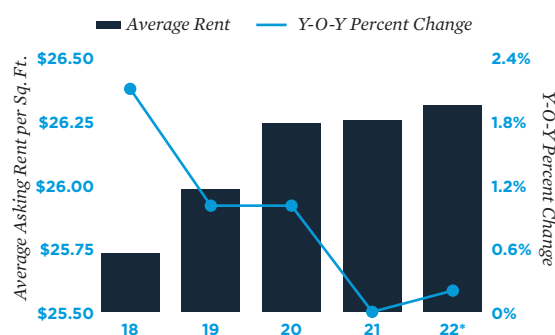
RENT:

The average asking rent will end 2022 at \$26.31 per square foot. Last year, the mean marketed rent posted a one-cent gain, placing the two-year rate of advance at just 0.3 percent. Prior to the pandemic, annual growth exceeding 1 percent was the norm.

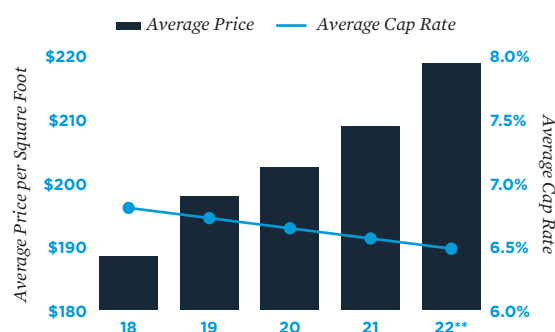
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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2Q 2022 - 12-Month Period



CONSTRUCTION

149,000 sq. ft. completed

- Developers completed the lowest amount of square footage in a yearlong span since at least 2007 during the 12-month period ended in June.
- More than 85 percent of the space finalized during this period came online in Morris and Passaic counties. The remaining square footage came from a small number of medical projects in Union and Hudson counties.



VACANCY

70 basis point decrease in vacancy Y-O-Y

- Northern New Jersey recorded four consecutive quarters of positive net absorption for the first time since 2019, pushing availability to 17.0 percent.
- Four of the region's six counties observed declining availability during the trailing year ended in June. Bergen, Hudson and Union counties notched vacancy compression of no less than 120 basis points.



RENT

0.2% decrease in the average asking rent Y-O-Y

- Vacancy compressing from mid-2021 did not prevent a decline in the average asking rent, which entered July at \$26.11 per square foot.
- Marketed rents in upper-tier assets increased slightly during the trailing year, growing by 0.1 percent to an average of \$29.52 per square foot. Class B and C fell to \$22.85 per square foot, a 0.4 percent decline.

Investment Highlights

- Transaction velocity during the 12-month period ended in June rose more than 10 percent over the previous span, roughly approaching the pre-pandemic norms. Increasing buyer enthusiasm helped push pricing 6.4 percent over the preceding yearlong period, the most rapid growth observed since 2018. At \$219 per square foot during the trailing year ended in June, the metro's average price point was nearly \$400 per square foot below that of New York City.
- Northern New Jersey's average cap rate maintained a steady decline this period, dropping 10 basis points to 6.5 percent. Responding to traditional office employers shifting leasing priorities to encourage workplace attendance, buyers are seeking out higher-quality assets and those ripe for interior or upgrades in locales close to commuter suburbs and public transit.
- Medical office investors are particularly active in the region's inland west, especially in Morris and Passaic counties, where entry costs fall below the market norm. As Northern New Jersey's population is older and more affluent than the nationwide average, these properties are a logical target for capital placement.