

# MARKET REPORT

Office  
Northern New Jersey Metro Area

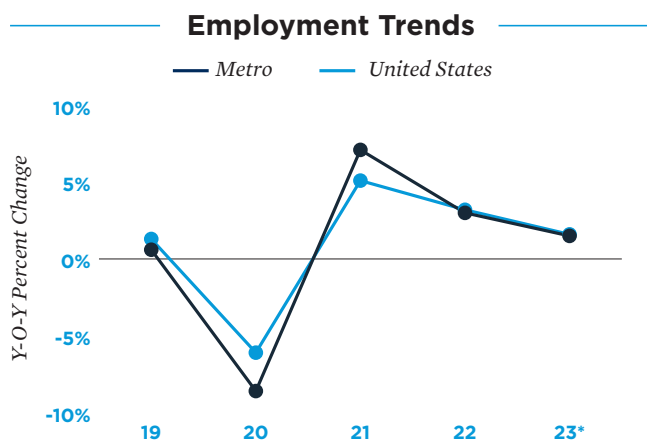
IPA  
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PROPERTY  
ADVISORS

4Q/23

## Offices Located in Central Neighborhoods Shine Amid Rising Vacancy Across the Region

**Suburban business districts attract corporate commitments.** The downtown areas of the region's smaller cities are emerging as notable corporate hubs. Morris County led net absorption among the area's submarkets during the 12-month period ended in June, with a net 727,000 square feet taken off the market. Many of these firms are settling near downtown Morristown, exemplified by biotech giant Sanofi's announcement to relocate here from its current Bridgewater headquarters. The firm's Consumer Healthcare division also moved into a 17,000-square-foot lease nearby early this year. In total, these relocations will bring 1,900 jobs to the submarket by 2025, and will add to the number of conglomerates operating in Morristown, such as Verizon Wireless, Deloitte and Kroll.

**Urban Essex County outperforms regional average.** As with Northern New Jersey's smaller downtowns, Newark's commercial core is also performing well. The area has noted a stable vacancy rate since the onset of the pandemic, with the metric peaking at roughly 13 percent here in 2022, and has declined since then. This is notably tighter than the 17.8 percent metric noted region-wide entering July, and the city's stable tenant roster bodes well for demand here moving forward. In addition to headline occupants like Prudential and PSEG, the city boasts a number of public sector organizations leasing space here. In July, the New Jersey transit authority signed a 25-year, 407,000-square-foot lease to commence in 2024.



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Office 2023 Outlook



**33,000  
JOBS**

*will be created*

### EMPLOYMENT:

The region's job base is expected to undergo a 1.5 percent expansion this year, though traditional office-using sectors are on track to shrink. These industries lost a net of 8,000 jobs in the first eight months of 2023.



**600,000  
SQ. FT.**

*will be completed*

### CONSTRUCTION:

Development increases notably on an annual basis, following 2022's record low of 160,000 square feet. However, roughly half of the space slated for completion this year is medical office.



**80  
BASIS POINT**

*increase in vacancy*

### VACANCY:

Consolidation activity continues to weigh on vacancy, as the year-end rate of 18.1 percent will be the highest recorded since at least 2007. Nevertheless, pockets of solid demand remain in walkable city centers.



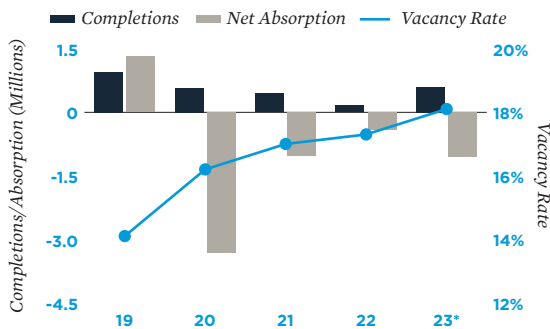
**2.0%  
INCREASE**

*in asking rent*

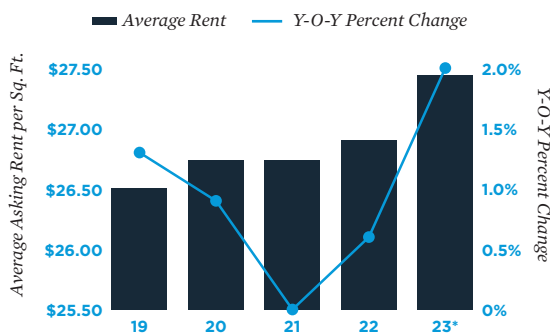
### RENT:

Although availability is on the climb, asking rents continue to trend upward, due to a high proportion of Class A stock hitting the market. The mean marketed rate will close out the year at \$2744 per square foot.

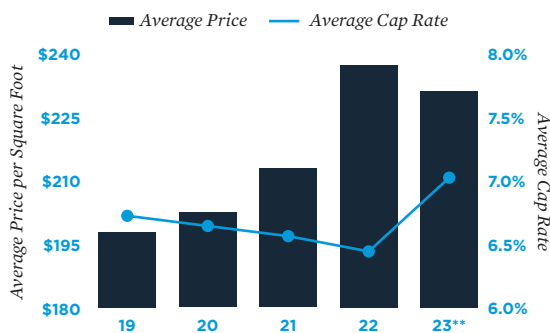
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

## 2Q 2023 - 12-Month Period



### CONSTRUCTION

**360,000 sq. ft. completed**

- Over 228,000 square feet of the stock completed during the 12-month period ended in June stems from medical office projects.
- Roughly 580,000 square feet of traditional office space is in the pipeline, with Morristown proper receiving about two-thirds of this allotment across two separate properties. Both buildings are fully accounted for.



### VACANCY

**90 basis point increase in vacancy Y-O-Y**

- More than 1.3 million square feet was relinquished to the market during the yearlong span ended in June, driving vacancy to 17.8 percent.
- Class A properties are responsible for the bulk of this increase, with segment vacancy rising 170 basis points to 26.6 percent. Mid- and lower-tier offices recorded a 10-basis-point increase, entering July at 9.5 percent.



### RENT

**2.9% increase in the average asking rent Y-O-Y**

- The average marketed rent lifted to \$27.38 per square foot over the four-quarter period ended in June.
- Essex and Hudson counties led the metro in rent growth during this span. A gain of 4.6 percent was noted in both submarkets, driving the mean asking rents here to \$27.01 and \$35.62 per square foot, respectively.

## Investment Highlights

- Barring a dip during the worst period of the health crisis, quarterly transaction velocity has remained relatively consistent since 2019. Sales activity largely reflects confidence in suburban offices. While vacancy is rising, the region is home to a bevy of corporate headquarters and mom-and-pop firms that will help stabilize this metric in the long-run.
- Trades of properties in the \$15 million-plus price tranche picked up during the second quarter, signaling an increasing willingness from institutions to acquire larger buildings. These parties typically pursue assets in business districts, such as in Jersey City and Morristown. While highly-occupied vintage properties are frequently targeted, some low-occupancy assets did change hands, though these were typically post-millennial builds.
- Northern New Jersey ranks among the top-10 tightest major metros in the country for Class B/C vacancy, which could attract capital to mid- and lower-tier assets. The region noted a number of mid-20th century builds in these segments trading in the sub-\$5 million price tranche. Buyers could target assets in Union County, which reported the lowest Class B/C vacancy at 7.2 percent.

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: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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