

# INVESTMENT FORECAST

OFFICE

Northern New Jersey Metro Area

IPA

INSTITUTIONAL  
PROPERTY  
ADVISORS






2020

## Regional Cost Advantages Drive Both Office Tenant and Investor Demand in Northern New Jersey

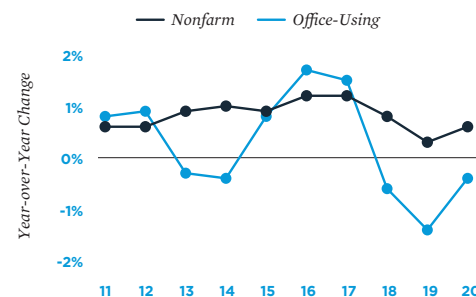
**Corporations recommit to region, keeping vacancy near record lows.** The Northern New Jersey office market will benefit this year from the retention of several major employers who renewed sizable leases in 2019, including Pershing and Samsung, as well as from prominent new tenants. LG Electronics' new 360,000-square-foot North American headquarters will open near the George Washington Bridge later this year, eventually housing 1,000 employees. Other notable construction projects arriving in 2020 include Building 100 at Kearny Point as well as the 205,000-square-foot Muhlenberg Medical Arts Complex in Union County. Overall, while construction is picking up slightly this year, office development in the region has been modest over the past decade, growing at half the national pace. As a result, vacancy will remain well below the cycle peak of 18.6 percent from 2013. Availability is even tighter for Class B/C space, about half the rate of Class A floor plans, reflecting the demand for affordable office space near one of the globe's most prominent business centers in New York City.

**Investor demand in established office hubs fuels price gains.** Transaction velocity in 2019 moderated, down slightly from peak activity levels in 2016 and 2017. Sales prices nevertheless appreciated at an above-average pace, indicating strong competition for office assets. The greatest number of trades took place in Bergen and Morris counties, concentrated near points of access to Manhattan such as the George Washington Bridge as well as suburban population centers including Parsippany and Morristown. Local buyers largely target Class B and C properties, which are outperforming Class A facilities in occupancy. Regional investors are also entering the market, motivated by yield. Cap rates for recent trades have averaged around 7 percent, down 20 basis points from the year before but well above first-year returns in adjacent New York City or other major East Coast metros. These offer comparatively lower entry costs as well.

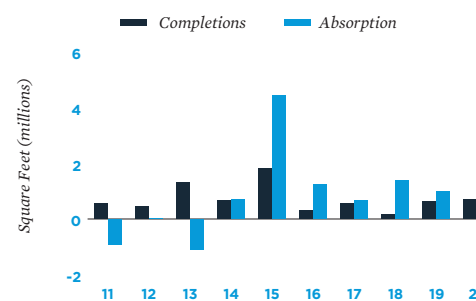
## 2020 Market Forecast

- Employment** up 0.6%  Employers will create 12,400 jobs in 2020, above last year's total, while about 2,000 office-based roles will leave the market due to contractions in the financial activities and other sectors.
- Construction** 700,000 sq. ft.  Developers will add about 66,000 more square feet than was completed in 2019, below some previous years in the cycle.
- Vacancy** up 10 bps  After a 20-basis-point decline last year, the vacancy rate in 2020 will inch up to 15.4 percent. Tight availability persists in several areas, including Union County at under 10 percent.
- Rent** up 1.8%  The average asking rent will advance to \$28.22 per square foot this year, following a 1.9 percent rate of appreciation in 2019.
- Investment**  A prominent pharmaceutical presence supports ongoing demand for medical office assets, which change hands at tighter yields than the 6 to 7 percent band of traditional offices.

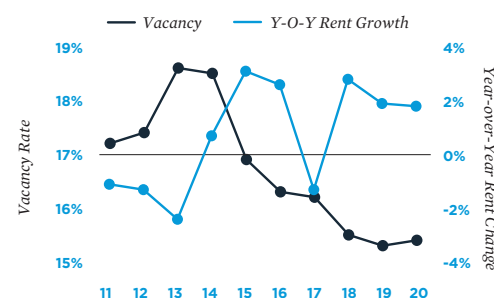
### Employment Trends



### Office Supply and Demand



### Vacancy and Rent Trends



\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2020. Asking rent is based on the full-service marketed rental rate. 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 office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, 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.