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Colliers

Research Report

New Jersey Office

Q1 2021

Accelerating success.

New Jersey Office

As we pass the one-year anniversary of COVID-19 related shutdowns in New Jersey, the impact the pandemic had was clear. Large blocks of sublease space continued to return to the market as many office employees continue to work from home. Leasing activity was driven by renewals, as tenants delay significant real estate moves, while reassessing space needs. Businesses and landlords are eager to put the pandemic in their rearview mirror, and there is some hope that with a vaccine, the market will make a turnaround during the second half of 2021.

New Jersey's office market continues to feel the fallout one year after COVID-19 and the related shutdowns. The uncertainty has resulted in a glut of sublease space returning to the market, now accounting for 15.5% of the total available space – a number not seen since 2010, during the height of the global financial crisis.

As was the case last quarter, several large blocks of both direct and sublet space returned to the market. The five largest spaces given back added over 1 million square feet (MSF) of space, with the largest belonging to PSE&G, who added 295,345 SF to the sublease market at 80 Park Plaza in Newark. This was followed by 229,998 SF of direct space at 1405/1425 Route 206 in Bridgewater, vacated by Mallinckrodt, who downsized and relocated to 53 Frontage Road in Hampton. Also giving back space was ADP in Parsippany. The payroll giant is planning to vacate 129,884 SF at 15 Waterview Boulevard, after taking on a work from home approach. This marks the first time the building will be available for lease since being built for ADP in 1999.

This dynamic led to negative net absorption for the fifth consecutive quarter, and at negative 2.2 MSF, net absorption surpassed the negative 2.0 MSF mark for the second straight quarter. Since the onset of the pandemic, occupancy losses over the last year totaled negative 7.3 MSF, which caused a 360-basis point spike in the availability rate during this period, to 22.2% - marking the highest rate in seven years.

Summary Statistics

	Q1 2021	Q4 2020	Q1 2020
Leasing Activity SF	1,959,691	1,374,420	2,265,425
Net Absorption SF	(2,160,437)	(2,064,302)	(230,945)
Availability Rate	22.2%	21.3%	18.6%
Average Asking Rent (\$/SF/YR)	\$28.86	\$28.55	\$28.26

*Source: Colliers

Leasing Activity Rebounds in Q1 2021

Leasing activity showed promising improvement to start 2021, after record low levels of demand in 2020. Total activity reached 2.0 MSF and is up 42.6% from last quarter, though it is still 13.3% lower from the three-year quarterly leasing average of 2.3 MSF. Companies with upcoming lease expirations have renewed at a higher rate since the onset of the pandemic than they did prior to COVID-19. During Q1 2021 renewals accounted for 44.0% of overall leasing activity, up from an average of 25% prior to COVID-19.

The State of New Jersey completed the largest deal of the quarter, renewing 332,494 SF at 3444 Quakerbridge Road in Hamilton. Honeywell sold their 446,798 SF headquarters building at 115 Tabor Road in Morris Plains this quarter, after announcing that it was moving its headquarters to Charlotte, North Carolina. The company leased back 131,745 SF at the building, as they did keep approximately 800 employees in Morris Plains.

The health care and life science industries continued to drive demand during this period. In addition to Mallinckrodt's new lease in Hampton, Inveric Bio subleased 32,716 SF at 8 Sylvan Way in Parsippany. Health care companies such as Summit Medical Group have been expanding at a rapid pace in the Garden State. After signing major leases in Clifton and Montclair in 2020, Summit Medical Group also leased 36,751 SF at 1 Main Street in Chatham and 55,000 SF at 1225 McBride Avenue in Woodland Park during the quarter.

New Jersey Office

Pricing Remains Stable Despite Current Headwinds

The average asking rent has seemingly been unaffected by the current turmoil in the market. The average asking rent increased 2.1% year-over-year to \$28.86 PSF. However, the re-pricing of available space has turned negative since Q3 2020, as some landlords have reduced the asking rent on their buildings. The divergence of the asking rent and re-pricings were driven by the oversupply of newly available blocks of class A space returning to the market, priced above the current average asking rent. For example, over the last three quarters over 1.5 MSF of space returned to the market priced above \$30.00 PSF. This dynamic helped mask the moderate declines in current available space re-pricings.

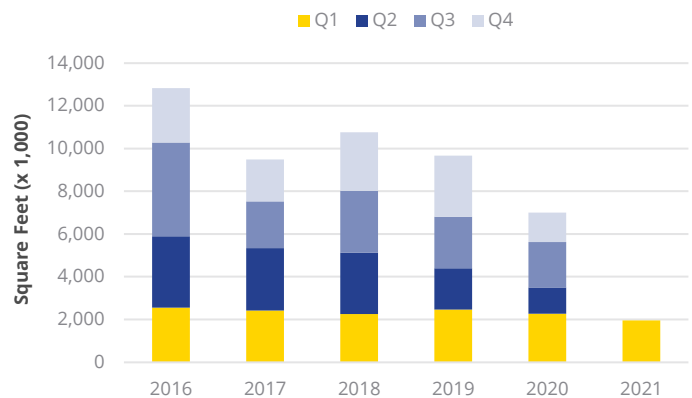
Employment Figures Points Towards Steady Recovery

New Jersey's total nonfarm employment improved in February by adding 10,700 jobs month-over-month according to the NJ Department of Labor. The public sector lost 1,400 jobs due to the laying-off of some government workers, including seasonal employees. Conversely, the private sector saw an increase of 12,100 jobs. New Jersey has now regained a total of 364,000, or about 51% of the jobs lost in March and April of 2020 due to the coronavirus pandemic. Still, the unemployment rate has seen little improvement and at 7.8% has remained at the same level since September 2020.

Nonfarm employment losses during this period far outpace that of any recent recession. After falling 17.0% from its peak employment, jobs have since rebounded, now down 8.4%, but the recovery has seemingly flattened.

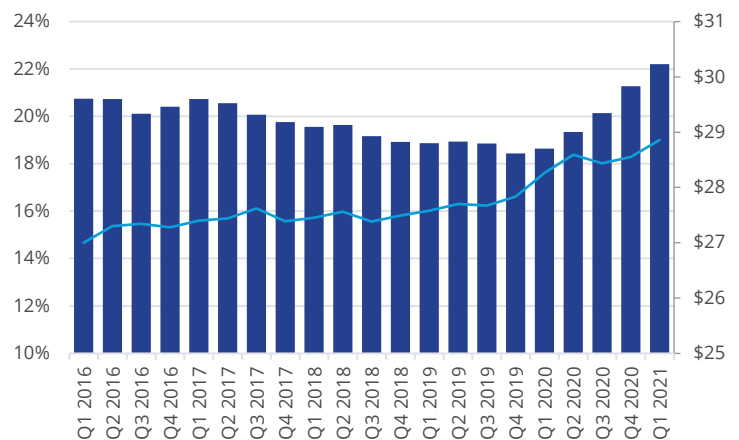
Office-using jobs did fare slightly better compared to the overall employment. New Jersey's office-using employment is down 4.7% from its recent peak employment month, however, has recovered at a faster rate. During the global financial crisis, the employment losses bottomed at 8.1%, but it took over nine years to recover all the job losses.

Overall Leasing Activity



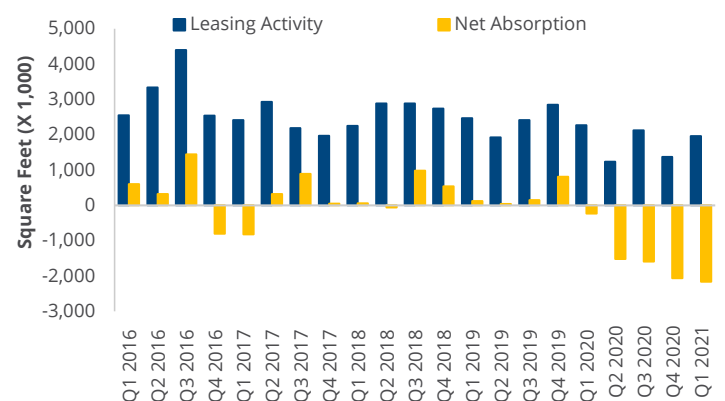
*Source: Colliers

Average Asking Rent vs. Availability Rate



*Source: Colliers

Leasing Activity vs. Net Absorption



*Source: Colliers

New Jersey Office

Sublease Availability

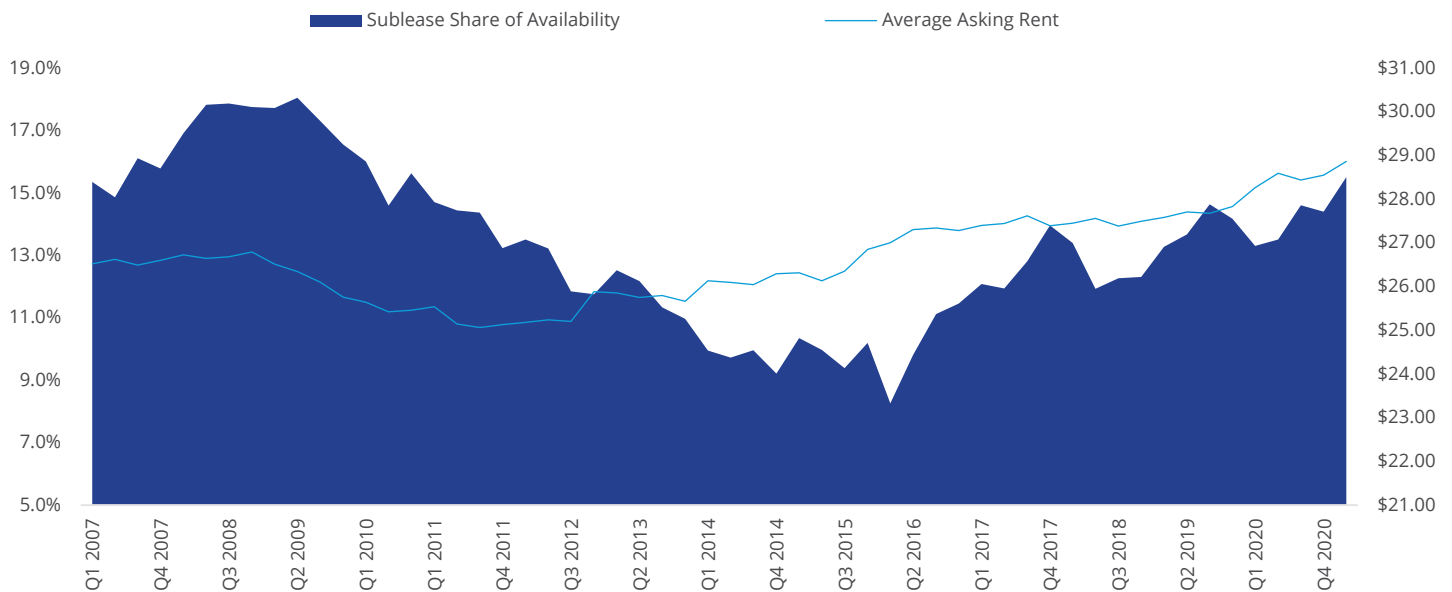
Sublease space continues to be watched closely in New Jersey, with the overall office market experiencing a 38.6% increase in available sublease space from 2020 to 2021. The sublease share of the overall available space increased sharply during Q1 2021 to 15.5%, marking the highest ratio in 11 years. Although new sublease additions persisted, the acceleration of newly available direct space has kept the ratio from further increases.

As more sublease space returns to the market there will be a shift in structural availability, which has the potential of exerting downward pressure on the average asking rent. Changes in the average asking rent typically do not occur right away, there will likely be a lag before repricing occurs.

Significant Q1 2021 Sublease Availabilities

Building Address	City	Sublease Available SF	Term
80 Park Plaza	Newark	295,345	9/30/2030
3 Gateway Center	Newark	185,763	9/30/2024
494 Broad Street	Newark	74,356	9/30/2034
111 Town Sq Place	Jersey City	67,610	4/30/2028
301 Route 17 North	Rutherford	53,040	9/30/2025
111 River Street	Hoboken	46,713	3/30/2023

*Source: Colliers



*Source: Colliers

New Jersey Office

Capital Markets

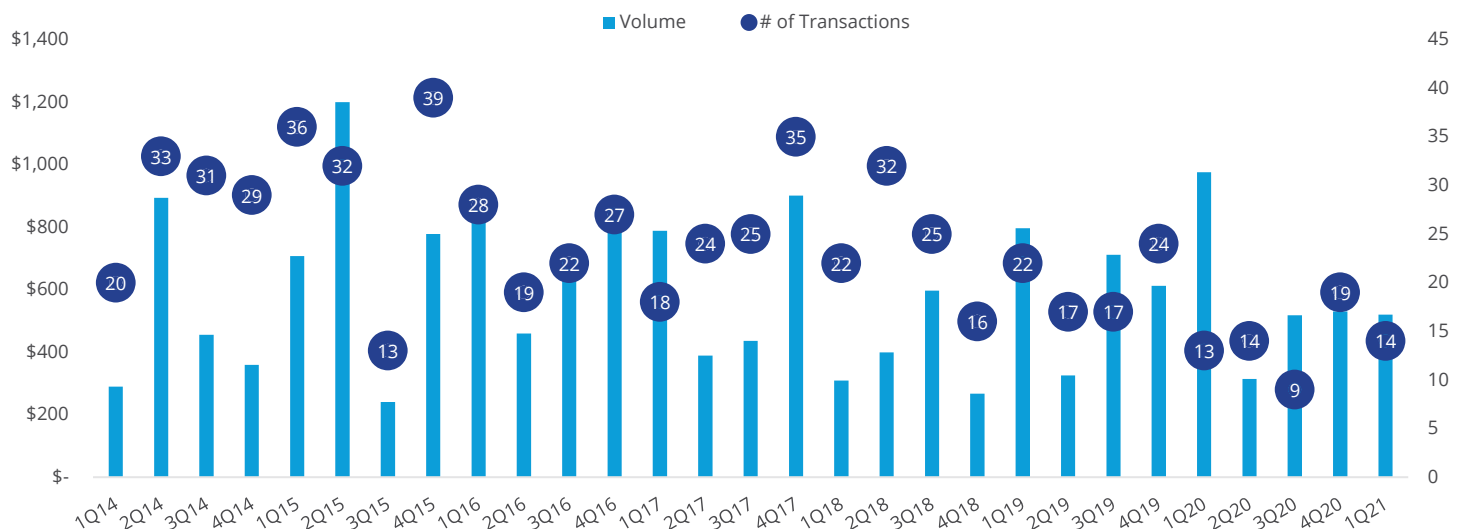
Investment sales remained steady during the first three months of 2020, with 14 trades totaling \$519.7 million. Total volume stayed on par compared to Q3 and Q4 2020, which totaled \$517.4 and \$529.8 million, respectively. Mack-Cali continued to shed their suburban New Jersey office properties, which helped boost investment sales during the pandemic. Mack-Cali sold their 931,660 SF Metropark office portfolio this quarter to Opal Holdings, who has been an active buyer over the last year. The portfolio consists of 99 and 101 Wood Avenue South in Iselin and 333 and 343 Thornall Street in Edison. The buildings were more than 90% leased at the time of sale and traded for \$254 million or \$272.63 PSF.

The Birch Group was an active investor again this quarter, acquiring an office portfolio in Morristown from Lincoln Equities Group for \$77 million or \$188.89 PSF. The 407,635 SF portfolio comprises of 100 Southgate Parkway, 60 Columbia Road and 1200 Mount Kemble Avenue, all of which are in Morristown and was 79% leased at the time of the transaction.

Select Q1 2021 Sale Transactions

Building Address, City	Building RBA	Buyer	Seller	Sale Price	Price PSF
Mack-Cali Metropark Office Portfolio	931,660	Opal Holdings	Mack-Cali	\$254M	\$272.63
Lincoln Equities Morristown Office Portfolio	407,635	The Birch Group	Lincoln Equities Group	\$77M	\$188.89
170 Park Avenue, Florham Park	147,215	Jones Lang LaSalle Income Property Trust	Lone Star Funds	\$46.6M	\$316.54
115 Tabor Road, Morris Plains	446,798	Argent Ventures	Honeywell International	\$39M	\$87.29

*Source: Colliers



*Source: Colliers

New Jersey Office

Select Q1 2021 Lease Transactions

Tenant	Property Address	City	Submarket	Leased SF	Lease Type
State of New Jersey	3444 Quakerbridge Road	Hamilton	Princeton	332,494	Renewal
Honeywell	115 Tabor Road	Morris Plains	Morristown	131,745	Sale/Leaseback
Mallinckrodt	53 Frontage Road	Hampton	Route 78 West	101,641	New Lease
ZT Group	200 Plaza Drive	Secaucus	Meadowlands	64,063	New Lease
U.S. Immigration and Customs Enforcement	8 Cedar Brook Drive	Cranbury	Princeton	60,309	New Lease
Samsung SDS America	100 Challenger Road	Ridgefield Park	Palisades	48,000	Renewal
Investors Bank	2300 Route 33	Robbinsville	Princeton	47,188	Sale/Leaseback
Sparta Systems	2000 Water View Drive	Hamilton	Princeton	39,726	Renewal
IPC Systems	10 Harborside Financial Center	Jersey City	Hudson Waterfront	35,219	Renewal
AmeriHealth	259 Prospect Plains Road, Bldg. M	Cranbury	Princeton	35,061	Renewal

*Source: Colliers

Q1 2021 Quick Leasing Facts

Total Lease Volume	New	Renewal	Sale/Lease Back	Avg. Lease Size	Median Lease Size
1,959,691 SF	918,743 SF	862,015 SF	178,933 SF	14,959 SF	6,183 SF

*Source: Colliers

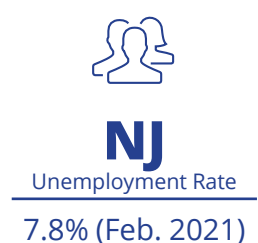
Economic Indicators



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Increase from
Q3 2020



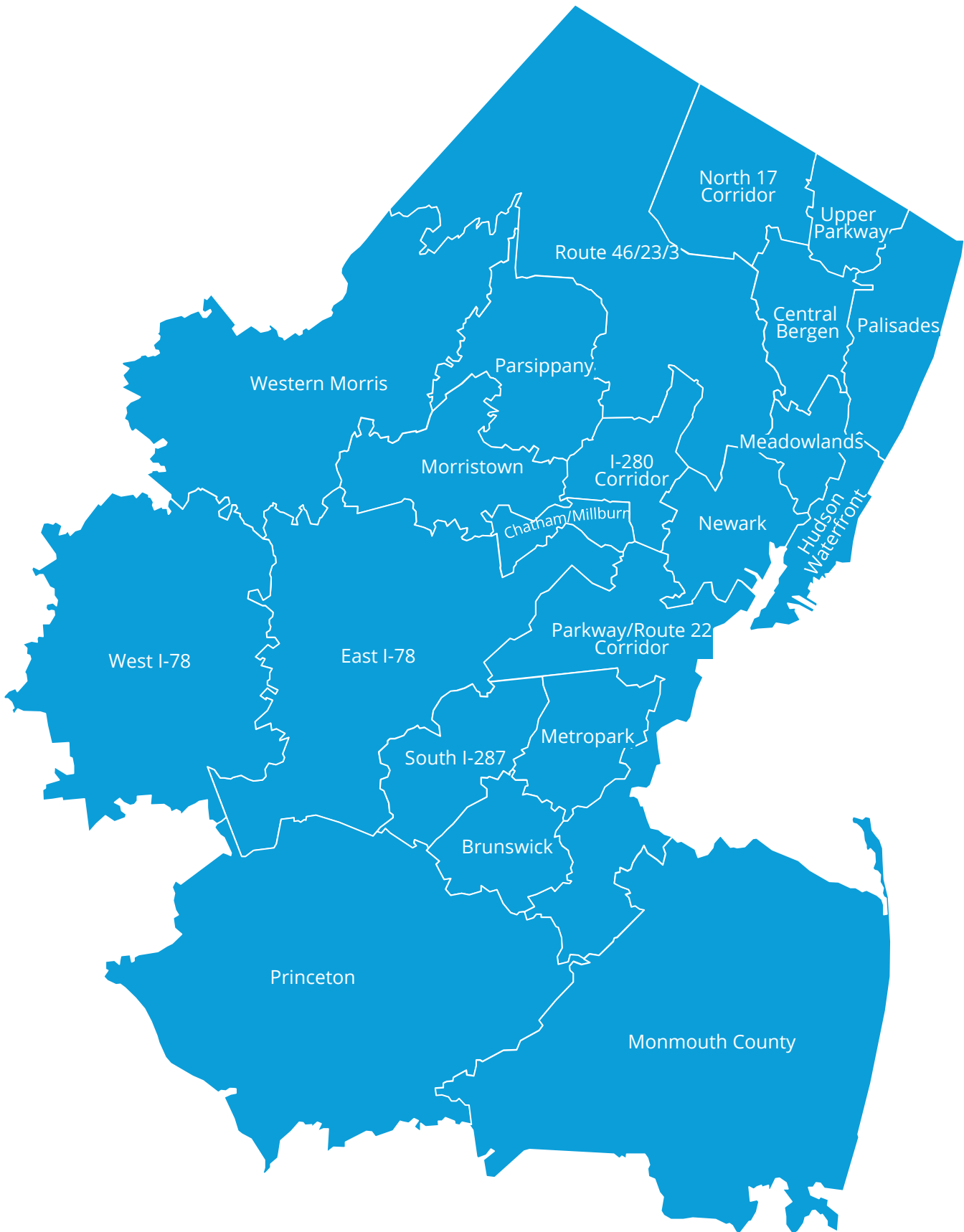
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Increase from
Feb. 2020



↑
Increase from
Oct. 2020

Source: U.S. Department of Commerce, The Conference Board, Bureau of Labor Statistics

New Jersey Office Submarkets



New Jersey Office Submarket Overview

Submarket	Stock	Total Inventory	Availability Rate (%)	Average Asking Rent (\$)	Leasing Activity (QTR.)	Net Absorption (QTR.)
Northern NJ						
Palisades	71	7,018,790	15.6%	\$29.75	94,420	18,117
Upper Parkway	45	3,788,391	25.5%	\$26.33	0	(83,616)
North 17 Corridor	41	4,788,300	16.5%	\$23.25	7,000	34,295
Central Bergen	99	8,917,206	19.5%	\$26.93	127,016	(14,660)
Route 46/23/3	111	8,801,485	21.9%	\$20.06	19,616	44,129
Hudson Waterfront	68	21,586,276	23.2%	\$43.16	178,504	(288,467)
Meadowlands	39	6,027,599	23.2%	\$27.04	126,695	(14,954)
Newark	50	15,667,625	17.7%	\$30.33	46,890	(517,519)
I-280 Corridor	55	7,645,355	18.2%	\$24.16	32,658	10,221
Parsippany	132	15,859,477	30.9%	\$26.47	75,345	(269,769)
Morristown	90	12,304,195	26.1%	\$29.77	266,272	(293,873)
Western Morris	16	1,171,695	29.5%	\$22.88	0	(31,186)
Chatham/Millburn	15	1,396,692	31.5%	\$48.01	36,751	1,882
Total NNJ	832	114,973,086	22.6%	\$30.48	1,011,167	(1,405,400)
Central NJ						
Parkway/Route 22 Corridor	44	2,767,753	23.7%	\$24.86	6,385	(7,360)
Metropark	57	7,717,246	18.0%	\$32.16	85,929	82,837
East I-78	165	24,220,155	23.6%	\$28.86	69,836	(452,165)
West I-78	27	3,637,003	33.1%	\$19.04	106,324	112,572
South I-287	78	9,760,940	22.4%	\$19.40	26,621	(30,936)
Brunswick's	24	3,095,043	13.7%	\$27.24	8,208	58,584
Monmouth County	118	10,159,049	18.5%	\$24.43	43,482	(40,149)
Princeton	280	26,275,712	21.0%	\$27.64	601,739	(478,420)
Total CNJ	793	87,632,901	21.7%	\$26.41	948,524	(755,037)
NJ Overall						
Class A	706	137,138,763	22.2%	\$31.89	1,332,423	(1,631,775)
Class B	754	57,979,471	23.3%	\$22.22	616,768	(499,186)
Class C	165	7,487,753	14.3%	\$18.55	10,500	(29,476)
Market Total	1,625	202,605,987	22.2%	\$28.86	1,959,691	(2,160,437)

*Source: Colliers

480 offices in 67 countries on 6 continents

United States: 160
Canada: 49
Latin America: 14
Asia Pacific: 43
Australia & New Zealand: 54
EMEA: 108



\$3.3B
in revenue



2B
square feet under management



18,000 +
professionals

About Colliers

Colliers (NASDAQ, TSX: CIGI) is a leading diversified professional services and investment management company. With operations in 67 countries, our more than 15,000 enterprising professionals work collaboratively to provide expert advice to real estate occupiers, owners and investors. For more than 25 years, our experienced leadership with significant insider ownership has delivered compound annual investment returns of almost 20% for shareholders. With annualized revenues of \$3.0 billion (\$3.3 billion including affiliates) and \$40 billion of assets under management, we maximize the potential of property and accelerate the success of our clients and our people.

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