



Colliers

Research Report

New Jersey Office

Q2 2021

Accelerating success.

New Jersey Office

As we move ahead and employees start to re-populate office buildings, the impact the pandemic had over the last 15 months is clear. Large blocks of sublease space flooded the market during this time, though the pace has shown signs of slowing down. Renewal activity persisted, as tenants delayed significant real estate decisions, 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. Still, it remains to be seen how demand will be impacted by companies taking a new approach to flexible work from home programs.

As New Jersey starts to re-emerge from the pandemic and with employees slowly returning to the office, the amount of newly available large blocks of space slowed during the last month of the second quarter. Still, the uncertainty has resulted in a glut of sublease space returning to the market, which now accounts for 17.2% of the total available space – the highest level since the height of the global financial crisis in 2009.

The spaces added to the sublease market totaled 1.4 million square feet (MSF), including six new blocks over 75,000 SF. Sublease availability now stands at 7.9 MSF - the highest on record. The largest new block belonged to Allergan who added 215,000 SF to the sublet market at 5 Giralda Farms in Madison, followed by Eisai's 118,092 SF sublease at 155 Tice Boulevard in Woodcliff Lake. While the sublease space increased, space available on a direct basis remained unchanged at 18.8%, signaling that the oversupply of direct space added to the market since the pandemic has peaked.

Net absorption remained in the red for the sixth consecutive quarter at negative 949,441 SF. However, occupancy losses slowed this quarter, recording less than 1.5 MSF of quarterly negative net absorption for the first time since the onset of the pandemic. New Jersey's office market totaled 8.5 MSF of occupancy losses over the last year and a half, which increased the availability rate to 22.7% - up 410 basis points from its low of 18.6% in Q1 2020.

Summary Statistics

	Q2 2021	Q1 2021	Q2 2020
Leasing Activity SF	2,283,054	1,959,691	1,232,938
Net Absorption SF	(949,441)	(2,160,437)	(1,518,946)
Availability Rate	22.7%	22.2%	19.3%
Average Asking Rent (\$/SF/YR)	\$28.90	\$28.86	\$28.59

*Source: Colliers

Renewals Drive Demand Amidst Pandemic

Leasing activity continued to improve, reaching 2.3 MSF during the quarter, marking the highest total since Q4 2019. While promising, this figure comes with some caveats: renewal activity made up more than half of the demand, and the largest transaction accounted for 23.5% of the total activity.

As was the case throughout the pandemic, tenants renewed their leases at a higher rate during Q2 2021. Renewal activity accounted for 50.1% of the total leasing activity during the quarter, compared to 22.9% during Q2 2019, pre-pandemic

Atlantic Health System renewed and expanded their leases to 536,662 SF at a three-building campus in Morristown in one of the most notable and largest transactions in years. The properties, which are now occupied by Atlantic Health System in its entirety, are located at 435, 465 and 475 South Street in Morristown and is home to the company's corporate headquarters, as well as medical office facilities.

Although renewals have been a significant demand driver, there were a handful of notable relocations, signifying tenant willingness to re-engage the market. In a significant win for Newark, WebMD relocated their New Jersey offices to a 101,117 SF space at 2 Gateway Center, which is currently undergoing a major renovation in order to revitalize Newark's downtown. Also notable was Food Truck, Inc's 103,931 SF lease at 399 Jefferson Road in Parsippany. The start-up food delivery company will occupy the space that was recently vacated by Pinnacle Foods.

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Pricing Remains Stable Despite Current Headwinds

The average asking rent has seemingly been unaffected despite substantial occupancy losses over the last year. The average asking rent increased slightly year-over-year by \$0.31 PSF to \$28.90 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 was driven by the oversupply of newly available blocks of class A space returning to the market, priced above the current average asking rent. This trend masked the moderate declines in current available space re-pricings.

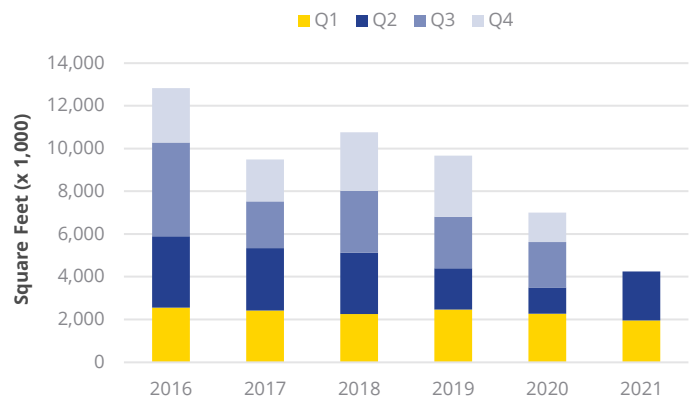
Market Activity Points Towards Early Sign of Recovery

New Jersey's office market has started to show early signs of a recovery during Q2 2021. The uncertainty surrounding the COVID-19 pandemic halted market activity for most of 2020, however large occupiers such as Atlantic Health System and WebMD inked significant leases this quarter, underscoring the trend that some office tenants have re-engaged the market, with more poised to do so in the coming months.

Sustained growth from the life science industry offers opportunities for vacant office assets. While demand is high, the specialized labs life sciences companies require are limited and as such, some have turned their attention to office buildings to fulfill their space requirements, which can further aid in New Jersey's office market recovery. Recent transactions by life sciences companies such as Inveric Bio, Hengrui Therapeutics, Infinity Biologix and CytoSorbents underscored this trend, all growing or committing to new space in office buildings during the year. This trend is expected to carry on throughout the year, as several large pharmaceutical requirements remain in the market.

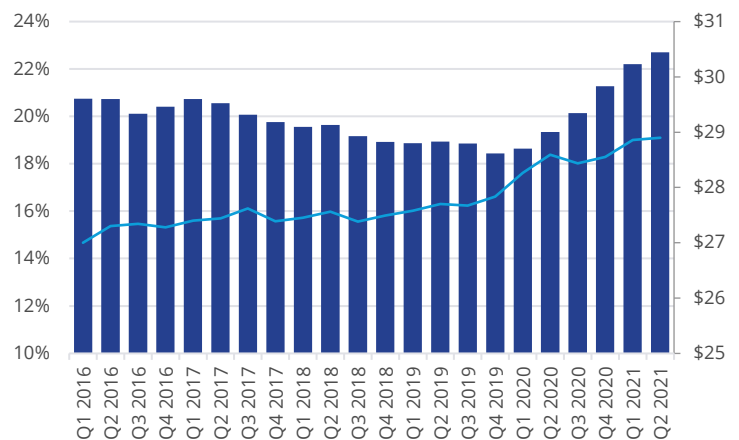
Life Science demand for office space will help reduce the availability rate to some extent, however, New Jersey's office market is weighed down by several large blocks of vacant space, a trend which was accelerated by the pandemic. The trajectory of the recovery will depend on the rate of finding new life for stranded assets as well as the decisions major occupiers will make regarding their office space needs.

Overall Leasing Activity



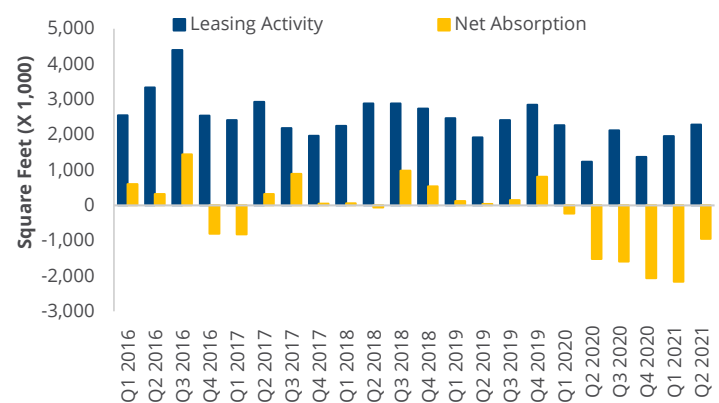
*Source: Colliers

Average Asking Rent vs. Availability Rate



*Source: Colliers

Leasing Activity vs. Net Absorption



*Source: Colliers

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Sublease Availability

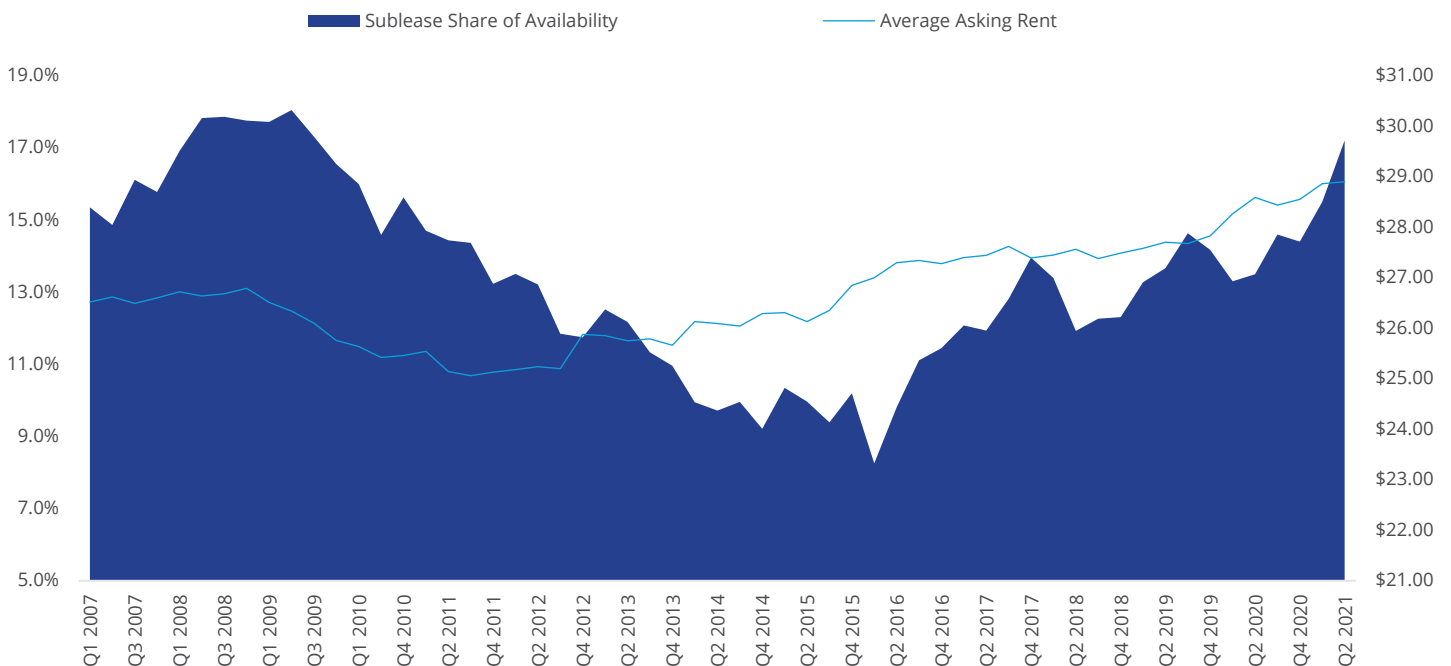
Sublease space continues to be monitored closely in New Jersey, with the overall office market experiencing a 56.6% increase in available sublease space between Q1 2020 to Q2 2021. The sublease share of the overall available space increased during Q2 2021 to 17.2%, marking the highest ratio in 12 years. Although new sublease additions persisted in the second quarter, the acceleration of newly available space appears to have reached its peak..

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 Q2 2021 Sublease Availabilities

Building Address	City	Sublease Available SF	Term
5 Giralda Farms	Madison	215,000	6/30/2030
155 Tice Boulevard	Woodcliff Lake	118,092	6/30/2028
77 Corporate Drive	Bridgewater	115,000	7/31/2026
221 River Street	Hoboken	86,443	5/30/2030
121 River Street	Hoboken	80,000	3/30/2025
7 Roszel Road	West Windsor	78,296	2/28/2028

*Source: Colliers



*Source: Colliers

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Capital Markets

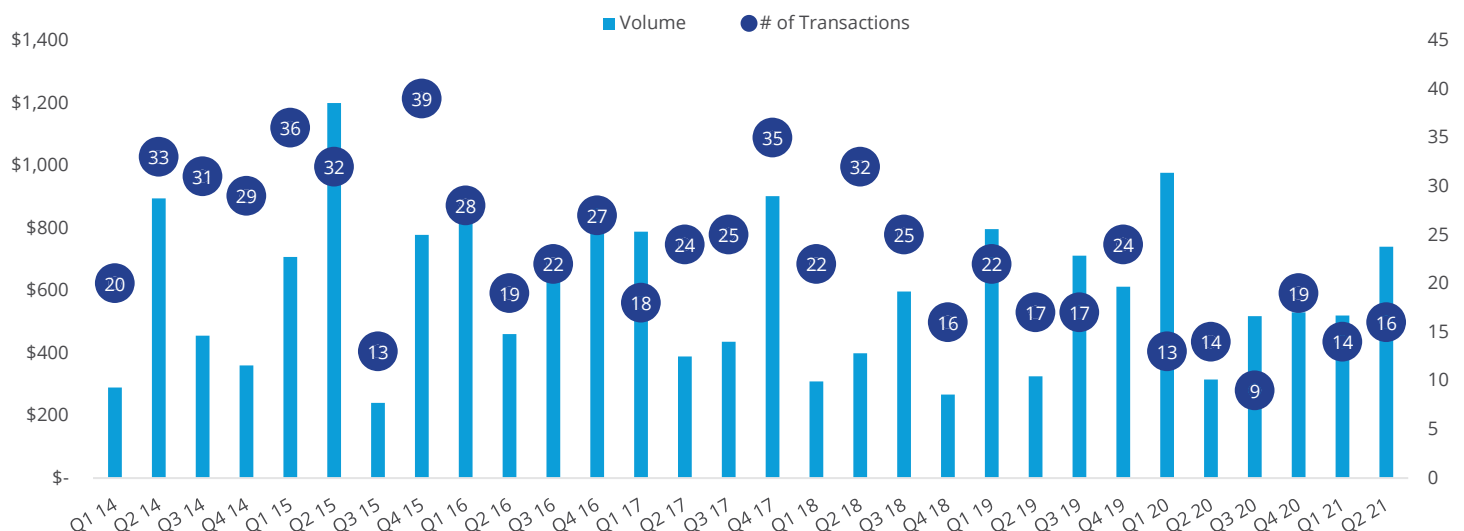
Despite the modest number of trades completed during Q2 2021, quarterly sales volume increased to its highest level in over a year to \$740 million and was driven by portfolio trades. Altogether, there were six portfolio sales totaling \$669 million, which accounted for 90.4% of the overall investment volume. Mack-Cali's four-building Short Hills disposition was the largest sale in both size and dollar amount this quarter, trading for \$255 million or \$302.38/SF. The 843,300 portfolio, which consists of 51, 101, 103 and 150 John F. Kennedy Parkway was acquired by the Birch Group, who has been an active buyer over the last 12 months. Mack-Cali completed their suburban disposition this quarter by also trading River Centre in Red Bank. The six-building portfolio was acquired by Crown Acquisitions for \$84 million or \$125.73/SF. Northeast Capital Group, who recently acquired 500 and 550 Hills Drive in Bedminster, made another splash this quarter with their purchase of Woodbridge Corporate Plaza in Iselin. The six-building campus, located at 485 Route 1 South, traded for \$88 million or \$139.86/SF.

Some investors have found success in committing substantial capital in order to renovate assets and reposition them in the market. Owners who have previously acquired value-add properties for redevelopment, have recently found success in their trades this quarter. For example, Rubenstein Partners and Vision Real Estate Partners traded two of the five properties at Warren Corporate Center in Warren to Exan Capital and Mirabaud Group for \$150 million or \$472.12/SF, shortly after Everest Re signed a lease to occupy the properties. Rubenstein Partners and Vision Real Estate Partners previously acquired the entire five-building campus in 2016 for \$136 million.

Select Q2 2021 Sale Transactions

Building Address, City	Building RBA	Buyer	Seller	Sale Price	Price PSF
51/101/103/150 John F. Kennedy Parkway, Short Hills	843,300	The Birch Group	Mack-Cali	\$255M	\$302.38
100/200 Warren Corporate Center Drive, Warren	318,247	Exan Capital / Mirabaud Group	Rubenstein Partners/ Vision Real Estate Partners	\$150M	\$472.12
485 Route 1 South, Bldgs. A-F, Iselin	629,195	Northeast Capital Group	KBS	\$88M	\$139.86
River Centre, Red Bank	668,107	Crown Acquisitions	Mack-Cali	\$84M	\$125.73

*Source: Colliers



*Source: Colliers

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Select Q2 2021 Lease Transactions

Tenant	Property Address	City	Submarket	Leased SF	Lease Type
Atlantic Health System	435/465/475 South Street	Morristown	Morristown	536,662	Renewal/Expansion
Food Truck, Inc	399 Jefferson Road	Parsippany	Parsippany	103,931	New Lease
WebMD	2 Gateway Center	Newark	Newark	101,117	New Lease
Infinity Biologix	30 Knightsbridge Road	Piscataway	South I-287	97,948	New Lease
Qualcomm	500 Somerset Corporate Boulevard	Bridgewater	East I-78	95,579	Renewal
Phibro Animal Health	300 Frank W Burr Boulevard	Teaneck	Palisades	49,577	Renewal
CytoSorbents	305 College Road East	Princeton	Princeton	48,500	New Lease
OpenText	100 Tormee Drive	Tinton Falls	Monmouth County	45,000	Renewal
Marotta Controls	20 Waterview Blvd	Parsippany	Parsippany	40,252	New Lease
Managed Health Care Associates	25 Vreeland Road, Bldg. A	Florham Park	Morristown	39,060	Renewal

*Source: Colliers

Q2 2021 Quick Leasing Facts

Total Lease Volume	New	Renewal	Avg. Lease Size	Median Lease Size
2,283,054 SF	1,136,124 SF	1,146,930 SF	15,531 SF	5,727 SF

*Source: Colliers

Economic Indicators



↑
Increase from
Q4 2020



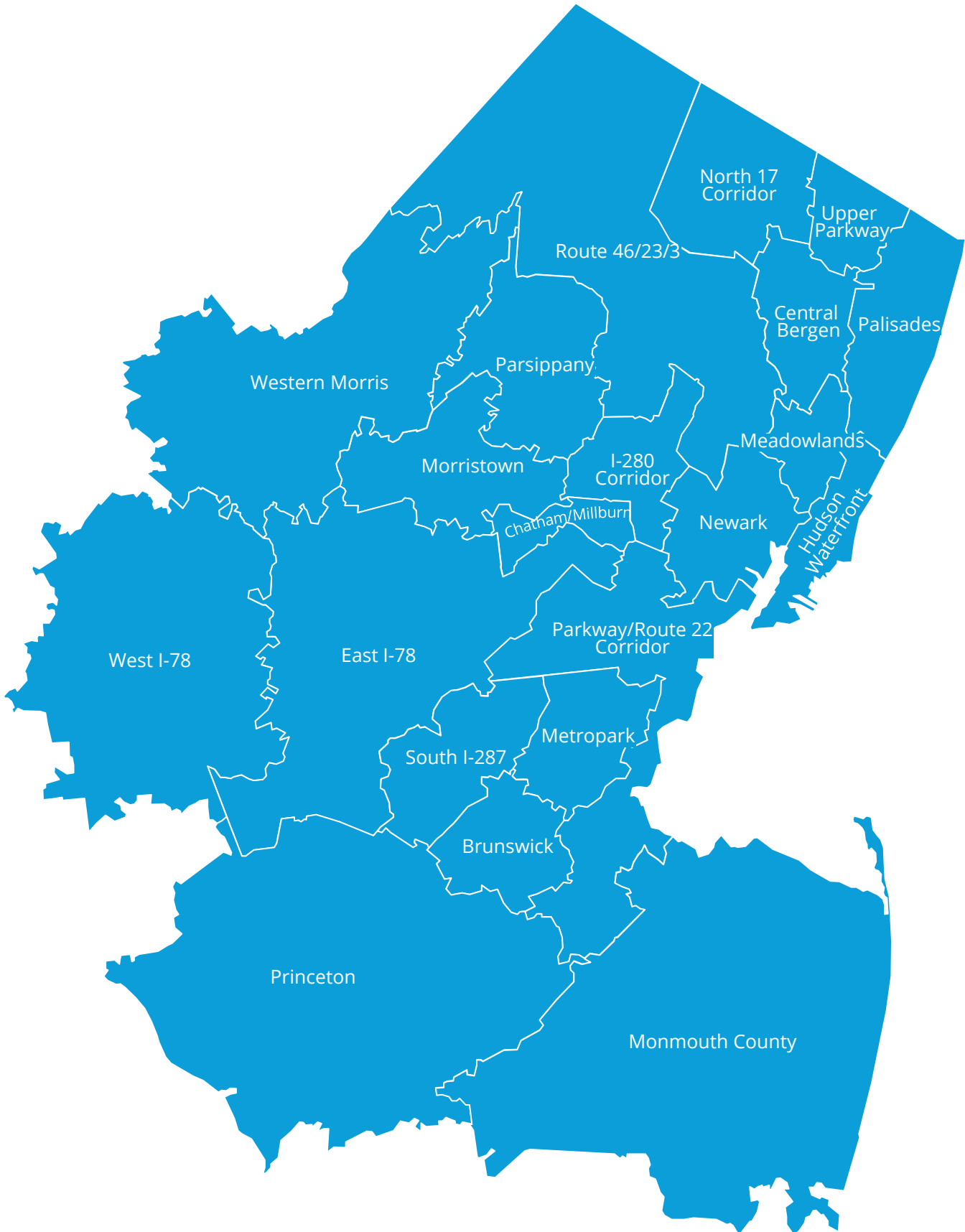
↑
Increase from
May 2021



↓
Decrease from
April 2021

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	19.8%	\$28.90	73,780	(299,321)
Upper Parkway	46	3,828,891	30.7%	\$28.22	12,996	(168,714)
North 17 Corridor	41	4,788,300	16.1%	\$23.52	11,839	20,207
Central Bergen	99	8,917,206	18.8%	\$26.85	91,290	60,819
Route 46/23/3	111	8,801,485	21.7%	\$20.18	5,200	22,378
Hudson Waterfront	69	21,697,376	25.0%	\$43.16	82,260	(284,433)
Meadowlands	39	6,027,599	24.5%	\$27.26	39,666	(79,918)
Newark	50	15,667,625	17.2%	\$30.31	140,913	82,179
I-280 Corridor	55	7,645,355	18.9%	\$24.24	23,800	(50,363)
Parsippany	126	15,583,071	29.7%	\$26.52	362,343	148,872
Morristown	90	12,304,195	29.2%	\$29.67	601,784	(377,780)
Western Morris	16	1,171,695	30.6%	\$22.99	12,763	(12,922)
Chatham/Millburn	15	1,396,692	24.1%	\$42.55	32,758	103,390
Total NNJ	828	114,848,280	23.4%	\$30.51	1,491,392	(835,606)
Central NJ						
Parkway/Route 22 Corridor	44	2,767,753	29.3%	\$25.56	26,893	(153,850)
Metropark	57	7,717,246	17.9%	\$32.31	87,635	8,492
East I-78	165	24,220,155	24.4%	\$28.58	239,322	(174,572)
West I-78	27	3,637,003	32.6%	\$19.07	0	18,749
South I-287	78	9,760,940	20.1%	\$19.12	154,686	226,832
Brunswick's	24	3,095,043	13.6%	\$27.50	21,315	5,537
Monmouth County	118	10,159,049	18.8%	\$24.66	112,967	(32,361)
Princeton	280	26,275,712	21.0%	\$27.42	148,844	(12,662)
Total CNJ	793	87,632,901	21.8%	\$26.46	791,662	(113,835)
NJ Overall						
Class A	708	137,290,363	23.0%	\$31.74	1,803,927	(976,759)
Class B	747	57,664,065	23.3%	\$22.32	437,394	(58,428)
Class C	166	7,526,753	13.1%	\$18.44	41,733	85,746
Market Total	1,621	202,481,181	22.7%	\$28.90	2,283,054	(949,441)

*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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