

Quarterly leasing tops 1 million sq. ft. for fourth straight quarter

▼ 1.32M
Leasing Activity

▲ 2.05M
Net Absorption

▼ 22.9%
Availability Rate

▲ \$30.31
Average Asking Rent

Note: Arrows indicate change from previous quarter.

QUICK FACTS

- Quarterly leasing activity totaled 1.32 million sq. ft. 2% behind the five-year quarterly average, but the fourth consecutive quarter of more than one million sq. ft.
- Year-to-date leasing activity totaled 4.36 million sq. ft. up 101% from the prior year.
- Renewals increased 56% quarter-over-quarter to 435,000 sq. ft. Additionally, renewals constituted 25% of overall velocity, a larger share compared to 15% in Q2 2022.
- The availability rate fell 130 basis points(bps) quarter-over-quarter to 22.9% and is down 180 bps from a year ago.
- Net absorption finished Q3 2022 at positive 2.05 million sq. ft. bringing the year-to-date total to 2.91 million sq. ft.
- Average asking rent was up 6% from last quarter \$30.31 per sq. ft. and is up 10% year-over-year.
- Sublease availability rate rose 30 basis points quarter-over-quarter to 5.2% and up 50 basis points year-over-year.

Market Overview

The Northern and Central New Jersey office markets saw leasing top one million sq. ft. for the fourth consecutive quarter—the first time this has happened since the pandemic. The market’s 1.32 million sq. ft. of leasing activity in Q3 2022 trailed the five-year quarterly average by 2%. Year-to-date leasing is up 101% from the prior year but is behind by 5% compared to the same period in 2019. Overall asking rent continued to rise and reached \$30.31 per sq. ft. as of Q3. Quarterly leasing contributed to 2.05 million sq. ft. of positive absorption, pushing the availability rate down by 130 bps quarter-over-quarter to 22.9%. The market continues to improve as the availability rate is down 170 bps from the all-time high seen in Q3 2021. Withdrawals of sublease space continued to be a trend in the market, but sublease availability remains elevated at 5.2%—more than double the rate at year-end 2019. The total supply of sublease space is 7.89 million sq. ft., 88% more than the pre-pandemic supply and represents 25% of total available space. Currently, blocks larger than 50K. sq. ft. represents 61% of sublease space available on the market. Meanwhile, demand for sublease space was concentrated in smaller blocks less than 50K sq. ft.

Economic Overview

The problems associated with inflation continue to run their course with aggressive rate hikes raising the cost of capital and forcing firms to rethink hiring plans. Hiring continued at New Jersey’s office-using firms through Q3 though the pace slowed substantially as the financial sector reduced headcount.

Office-using employment reached 103.7% of the pre-pandemic level in Q3, up from 103.1% at the end of Q2. Professional and business services continued to drive office-using employment gains in New Jersey, rising to 104.4%, up from 103.8% at the end of Q2. Employment in the information sector progressed slightly, increasing to 99.9% of the pre-pandemic level, up from 99.3% at end of Q2. Economic headwinds took a toll on the financial activities industry where employment fell slightly to 102.2% of the pre-demic level, down from a Q2 peak of 103.2%.

New Jersey’s overall unemployment rate ticked upwards in Q3 to 4%, still down considerably from the pandemic peak of 15.8% in May 2020, but slightly above the national unemployment rate of 3.7%. The economy is expected to contract early next year, resulting in a rise in unemployment and pushing inflation down toward 3% by year-end 2023.

Leasing Activity

The Northern and Central New Jersey office markets’ 1.32 million sq. ft. of leasing activity during the quarter was 2% below the five-year quarterly average and 17% below Q2 2022’s total. Despite the quarterly decline, leasing topped one million sq. ft. for the fourth consecutive quarter—the first time this has occurred since the start of the pandemic. Year-to-date leasing activity now totals 4.36 million sq. ft., which is 101% ahead of the same period in 2021 and only 5% behind the same total in 2019. Class A product remains particularly active, specifically in larger cities within New Jersey. Class A leasing accounted for 83% of Q3 2022’s total and 84% year-to-date.

FIGURE 1: New Jersey Office-Using Employment (Thousands)

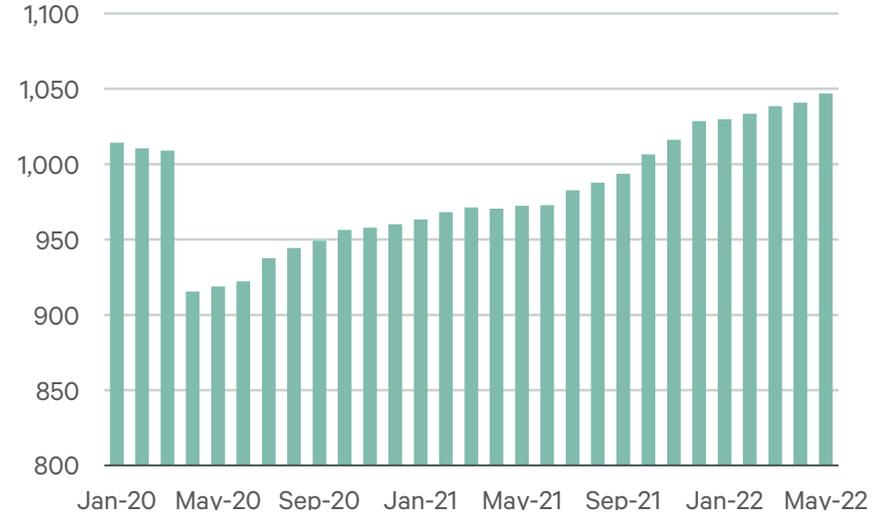
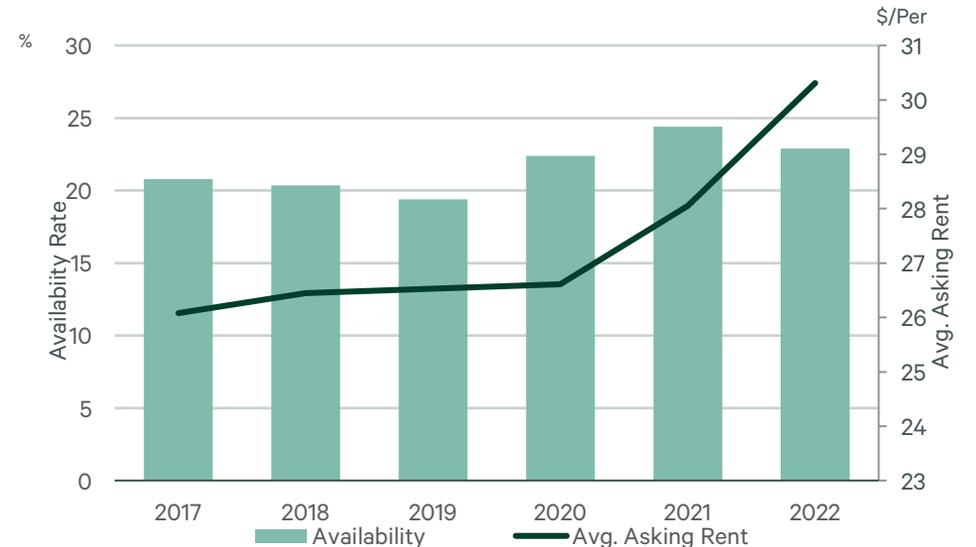


FIGURE 2: Historical Availability and Asking Rent



Source: CBRE Research, Q3 2022

For the second consecutive quarter, Central Jersey recorded more quarterly leasing activity than Northern Jersey. AT&T’s 230,000 sq. ft. lease at 1405 & 1425 Route 206 in Bedminster and K Hovnanian’s 62,000 sq. ft. commitment at 90 Matawan Rd. in Old Bridge helped Central Jersey outpace Northern Jersey by almost 102,000 sq. ft. The Route 287/78 Interchange submarket saw the most leasing activity of any submarket with 346,526 sq. ft.—90% above the five-year quarterly average due to the AT&T transaction. Greater Monmouth County’s 134,000 sq. ft. of leasing activity in Q3 was 168% above its five-year quarterly average due to the aforementioned deal in Old Bridge and the lease of 25,000 sq. ft. to Sycamore Medical Management at 200 Schultz Drive, Red Bank.

In Northern New Jersey, the Central Bergen and Morristown submarkets both recorded strong quarters. The 172,000 sq. ft. of leasing activity in Central Bergen was 116% above its five-year quarterly average. Central Bergen totaled 327,000 sq. ft. of leasing year-to-date, which is back to pre-pandemic levels. For the third straight quarter, Morristown saw more than 100,000 sq. ft. of leasing—the only submarket to achieve this feat for the year. Morristown’s year-to-date leasing activity was 460,000 sq. ft., which was 210% ahead of the same period in 2021 and 52% ahead of the average year-to-date totals between 2017-2019.

Renewals— which are not included in leasing activity — increased 56% quarter-over-quarter to 435,000 sq. ft. Additionally, renewals constituted 25% of overall velocity (new leases and renewals), a larger share compared to 15% in Q2 2022. Avis Budget Group had the largest renewal for the quarter, 212,535 sq. ft. at 6 Sylvan Way in Parsippany.

Net Absorption and Availability

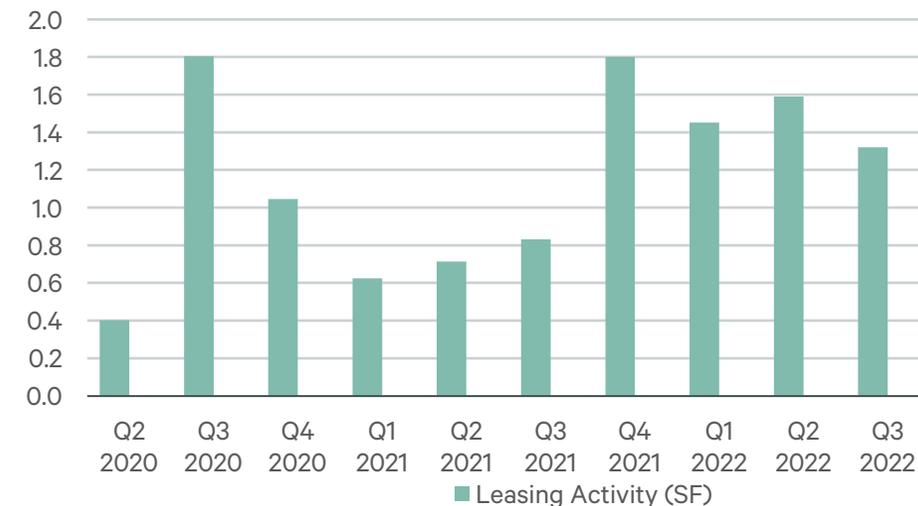
The Northern and Central New Jersey office markets saw availability fall by 130 bps quarter-over-quarter to 22.9%. The rate is down 180 bps from the record high seen in Q3 2021, but still up 350 bps from pre-pandemic levels. Absorption was positive for the third time in the past four quarters, registering 2.05 million sq. ft. Leasing activity contributed greatly to the total as did the withdrawal of some space in the Class B segment that is no longer available for office use. Year-to-date absorption is positive 2.9 million sq. ft.

FIGURE 3: Top Lease Transactions, Q3 2022

Tenant	Address	Size (SF)	Transaction Type
AT&T Corporation	1405 & 1425 Route 206	230,000	New Lease
Avis Budget Group	6 Sylvan Way	212,535	Renewal
K Hovnanian	90 Matawan Road	61,863	New Lease
Traveler’s Insurance	445 South Street	55,188	Renewal
Zelis, Inc.	340 Mount Kemble Avenue	53,295	New Lease

Source: CBRE Research, Q3 2022

FIGURE 4: Office Leasing Activity (Million Sq. Ft.)



Source: CBRE Research, Q3 2022

Fourteen of the twenty submarkets yielded positive absorption and declining availability. The Central Bergen submarket’s strong leasing in Q3 pushed absorption into positive territory with 388,000 sq. ft. for the quarter and positive 270,000 sq. ft. year-to-date. The Parkway Corridor submarket, which had 192,000 sq. ft. of negative absorption in the first half of the year, turned positive 23,000 sq. ft. for the year after 162,000 sq. ft. of positive absorption in Q3. Consistent leasing activity throughout the year has caused both Northern New Jersey and Central New Jersey availability rates to drop year-over-year by 140 bps and 230 bps, respectively.

For the third consecutive quarter, the Waterfront submarket saw an increase in availability. The availability rate ticked up 210 bps, bringing the availability rate to 27.7%. The Waterfront submarket had 16 blocks larger than 100,000 sq. ft. available on the market, the largest block of space added was 127,000 sq. ft. at 30 Hudson St. in Jersey City.

The sublease availability rate rose 30 bps quarter-over-quarter to 5.2% and up 50 bps year-over-year from 4.7%. The main contributor to the sublease availability rate rising was 151,000 sq. ft. of space being added to the Waterfront submarket, 83,000 sq. ft. of which is being put on the market by Ernst & Young at 121 River St. in Hoboken. Sublease space now totals 7.89 million sq. ft., or 23% of all available space in the North and Central New Jersey markets. Currently, blocks larger than 50K sq. ft. represents 61% of sublease space available on the market. Meanwhile, demand for sublease space was concentrated in smaller blocks less than 50K sq. ft. Sublease space within blocks greater than 50K sq. ft. saw 380,000 sq. ft. of negative absorption between Q2 2022 and Q3 2022. Conversely, sublease space lease in smaller blocks (less than 50K sq. ft.) saw positive absorption of about 74,000 sq. ft.

Rent Trends

The average asking rent for the Northern and Central New Jersey office markets continued to rise reaching \$30.31 per sq. ft. in Q3. This total was up 6% quarter-over-quarter. The market’s steady improvement in average asking rent over the past four quarters has resulted in an increase of 10% since Q3 2021. This is partially due to the elevated levels of space and higher quality offerings that are available. Class A rent increased 6% quarter – over- quarter to \$33.46 per sq. ft. and are seeing a 36% premium compared to Class B rent. Class B rent are up about 3% from the same time last year.

FIGURE 5: Net Absorption (Million Sq. Ft.)

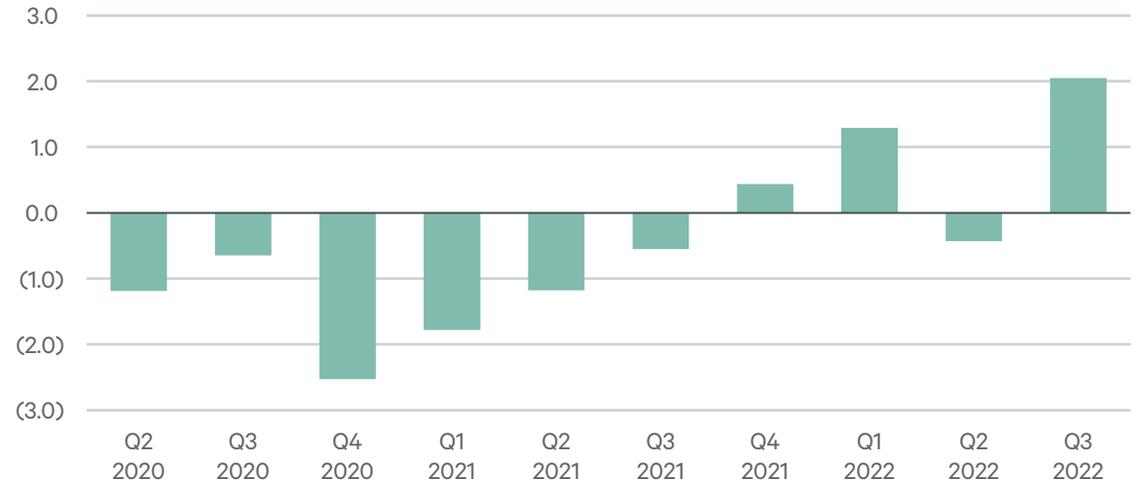
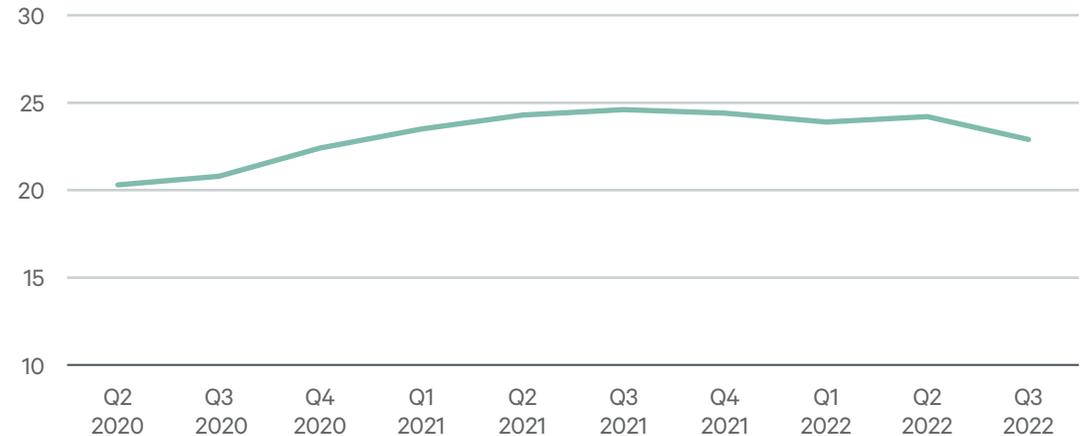


FIGURE 6: Availability Rate (%)



Source: CBRE Research, Q3 2022

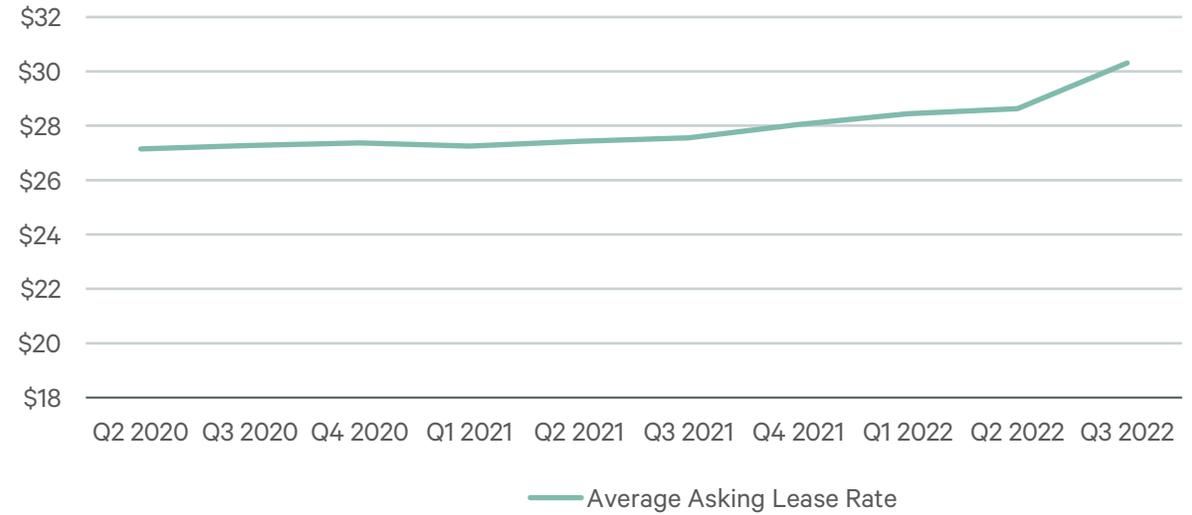
The average asking rent in Northern New Jersey was \$31.59 per sq. ft.—up 9% quarter-over-quarter, and up 13% year-over-year. Central New Jersey’s average asking rent was \$27.13 per sq. ft. – down 2% quarter-over-quarter, but up 2% year-over-year. Despite the gradual increases in average asking rent, landlords have continued to entice quality occupiers with generous incentive packages, especially for large, long-term deals.

Eleven of the twenty submarkets saw average asking rent increase quarter-over-quarter. The largest quarterly change occurred in the Meadowlands submarket, which rose 7% quarter-over-quarter to \$27.82 per sq. ft. This was partially due to 120,000 sq. ft. of lower-priced direct space no longer being marketed on Wall Street West Road in Lyndhurst, and 45,000 sq. ft. of lower-priced direct space being leased in Lyndhurst and Secaucus. Average asking rent in the Montvale/Woodcliff Lake submarket increased 6% quarter-over-quarter to \$26.13 per sq. ft., due to 126,000 sq. ft. of lower-priced direct space at 100 Summit Ave. in Montvale being redeveloped and was removed from the market. The Waterfront submarket, which is primarily Class A assets, saw overall asking rent tick up 1% quarter-over-quarter and are up 4% annually to \$43.79 per sq. ft. The Class A Waterfront rent were \$44.50 per sq. ft. in Q3 2022.

Investment Sales

Sales volume during the quarter increased in Q3, ending at \$435 million, an 89% increase compared to \$230 million in Q2. The largest sale during the quarter was the sale of Merrill Lynch leased properties at 1300-1400 American Blvd. in Pennington for \$223.5 million. The buyer of the properties was Northridge Capital and KAMCO Investments. The second largest sale was also in Pennington at 1700-1800 American Blvd. for \$70 million bought by Lionstone Capital/The Birch Group. The two sales combined for over 67% of the volume this quarter.

FIGURE 7: Average Asking Rents (\$/Per Sq. Ft.)



Source: CBRE Research, Q3 2022

FIGURE 8: Notable Sales Transactions

Address	Size (Sq. Ft.)	Price (Millions)	Price/Sq. Ft	Buyer
1300, 1350, 1400 America Blvd	553,841	\$223.50	\$404	Northridge Capital & KAMCO
1700 – 1800 American Blvd	307,510	\$70.00	\$228	Lionstone Capital/The Birch Group
520 Broad St	496,000	\$49.00	\$100	Sinai Investment Group
80 E Ridgewood Ave	33,595	\$16,00	\$491	WRD 80 Ridgewood LLC
100 Horizon Center Blvd	236,000	\$15.00	\$67	Cammeby’s

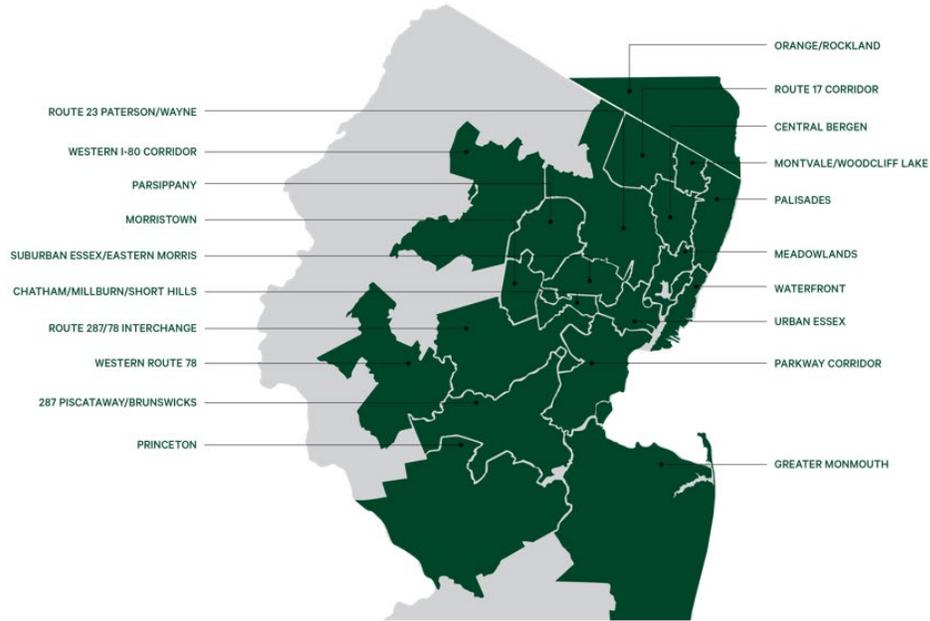
Source: CBRE Research, Q2 2022

FIGURE 19: Q2 2022 Submarket Statistics

Submarket	Market Rentable Area (Millions Sq. Ft.)	Availability Rate (%)	Avg. Asking Rent (\$/Sq. Ft./Yr)	Leasing Activity (Sq. Ft.)	Renewal Activity (Sq. Ft.)	Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)
Orange/Rockland	2.55	26.1%	\$23.18	28,722	12,504	27,632	38,271
Palisades	4.95	14.3%	\$31.87	31,447	0	133,415	370,806
Montvale/Woodcliff Lake	3.42	20.5%	\$26.13	47,037	0	401,288	407,168
Route 17 Corridor	2.89	21.1%	\$24.05	0	0	34,051	31,643
Central Bergen	5.77	16.7%	\$27.30	172,014	41,339	387,968	270,445
Route 23/Paterson/Wayne	5.81	20.0%	\$21.63	40,885	8,790	613,274	556,747
Waterfront	19.01	27.7%	\$43.79	22,189	5,004	(390,213)	(1,035,956)
Meadowlands	5.09	25.2%	\$27.82	64,878	0	94,818	44,054
Newark	12.94	16.2%	\$31.67	3,284	0	254,619	259,017
Suburban Essex/Eastern Morris	7.53	22.8%	\$26.50	22,676	4,640	(638,757)	(255,875)
Parsippany	13.63	30.0%	\$27.85	67,709	223,486	362,045	847,072
Morristown	8.88	30.4%	\$29.50	108,510	68,569	(27,158)	(340,418)
Western I-80 Corridor	0.71	45.0%	\$23.16	0	0	(26,892)	(42,760)
Chatham/Millburn/Short Hills	0.90	22.5%	\$45.76	0	0	19,526	20,670
Northern New Jersey Total	94.12	23.9%	\$31.59	609,351	364,332	1,245,616	1,170,884
Parkway Corridor	9.44	20.7%	\$32.42	120,526	22,559	162,024	22,858
Route 287/78 Interchange	19.76	19.9%	\$26.08	346,526	0	167,392	497,447
Western Route 78	2.43	52.9%	\$14.55	12,300	15,814	34,788	(35,212)
Route 287/Piscataway/Brunswicks	7.16	20.1%	\$21.66	50,861	14,929	(15,791)	829,620
Greater Monmouth County	4.75	24.9%	\$28.72	134,379	500	(498)	43,270
Princeton	15.50	17.5%	\$27.18	46,907	16,427	455,405	378,299
Central New Jersey Total	59.05	21.2%	\$27.13	711,499	70,229	803,320	1,736,282
New Jersey Total	153.17	22.9%	\$30.31	1,320,850	434,561	2,048,936	2,907,166

Source: CBRE Research, Q3 2022

Market Area Overview



DEFINITIONS

Availability: Space that is being actively marketed and is available for tenant build-out within 12 months. Includes space available for sublease as well as space in buildings under construction

Asking Rent: Weighted average asking rent

Leasing Activity: Total amount of sq. ft. leased within a specified period of time, including pre-leasing and purchases of space for occupancy, excluding renewals

Leasing Velocity: Total amount of sq. ft. leased within a specified period of time, including pre-leasing and purchases of space for occupancy, including renewals

Net Absorption: The change in the amount of committed sq. ft. within a specified period of time, as measured by the change in available sq. ft.

Taking Rent: Actual, initial base rent in a lease agreement

T.I.: Tenant Improvements

Vacancy: Unoccupied space available for lease

Contacts

Nicole LaRusso

Senior Director, Research & Analysis

+1 212 984 7188

Nicole.LaRusso@cbre.com

Michael Slattery

Associate Field Research Director

+1 212 656 0583

Michael.Slattery@cbre.com

Erica Morano

Senior Field Research Analyst

+1 732 509 2800

Erica.Morano@cbre.com

Michael Philibosian

Research Data Analyst

+201 712 5632

Michael.Philibosian@cbre.com

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