

# Despite some large transactions, leasing remained below average levels

▼ 1.05M  
Leasing Activity

▲ (0.70)M  
Net Absorption

▲ 24.6%  
Availability Rate

▲ \$31.50  
Average Asking Rent

Note: Arrows indicate change from previous quarter.

## QUICK FACTS

- Average asking rents were \$31.50 per sq. ft., up 2% from the prior quarter and 11% from a year ago.
- Quarterly leasing activity totaled 1.05 million sq. ft., down 15% from the prior quarter and 21% behind the five-year quarterly average.
- Renewals totaled 547,000 sq. ft.—up 17% quarter-over-quarter.
- The availability rate was 24.6%, up 60 basis points (bps) quarter-over-quarter and 70 bps from a year ago.
- Net absorption for Q1 2023 was negative 702,000 sq. ft.
- Sublease availability rate was up 30 bps year-over-year to 5.2%, which equates to 7.95 million sq. ft. of sublease space or 21% of all available space.

## Market Overview

Economic uncertainty continued to stall activity in the office market. Q1 2023's 1.05 million sq. ft. of leasing activity was 21% below the five-year quarterly average. Pockets of activity are focused on the highest quality space, in premier locations. Overall asking rent for the Northern and Central New Jersey office market rose reaching \$31.50 per sq. ft. in Q1. Supply continued to mount as large new blocks of space contributed to 702,000 sq. ft. of negative absorption, pushing the availability rate up 60 bps quarter-over-quarter to 24.6%. The supply of sublease space increased to 7.95 million sq. ft. and represents 21% of total available space. Removals of obsolete office stock through conversion and demolition for alternative uses continued in Q1 2023, with 1.2 million sq. ft. recorded for removal from office inventory. Northern and Central New Jersey's cumulative 2019-2023 total removals to 13.6 million sq. ft.

## Economic Overview

Downstream consequences of the Fed’s tightening program are surfacing and signaling slower growth ahead. Several factors are beginning to weigh on employment, including reduced consumer demand for goods and services and the paring of corporate functions in the financial and technology sectors where employment gains exceeded revenue growth in recent years.

Despite mounting challenges in the economy, New Jersey’s employment landscape pushed through Q1 2023 and remained in positive territory, picking up 24,000 new jobs since the end of 2022 – a growth quarterly rate of 0.6%. Office-using employers grew more slowly than other New Jersey industries in Q1 with a growth rate of 0.2%, equating to 2,300 jobs. New Jersey’s office-using job growth was concentrated in professional and business services which gained 2,000 jobs (+0.3%) and financial activities which added 600 roles (+0.2%) while the information sector shed 300 jobs (-0.4%). All three sectors remain above their pre-pandemic employment level.

New Jersey’s overall unemployment rate remained low at 3.5% in Q1, up from 3.3% at the end of 2022 but down considerably from the pandemic peak of 15.8% in May 2020, and below the national unemployment rate of 3.6%.

## Leasing Activity

The Northern and Central New Jersey market saw 1.05 million sq. ft. of leasing activity in Q1 2023 trailing the five-year quarterly average by 21% and down 15% quarter-over-quarter. Despite the quarterly decline, leasing activity has consistently topped one million sq. ft., surpassing the mark for the sixth consecutive quarter. Tenants continue to be attracted to the highest quality space in superior locations. Class A leasing activity accounted for 86% of the quarter’s total. Large leases with leases of 50,000 sq. ft. or greater accounted for 370,000 sq. ft., or 35% of total leasing activity.

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

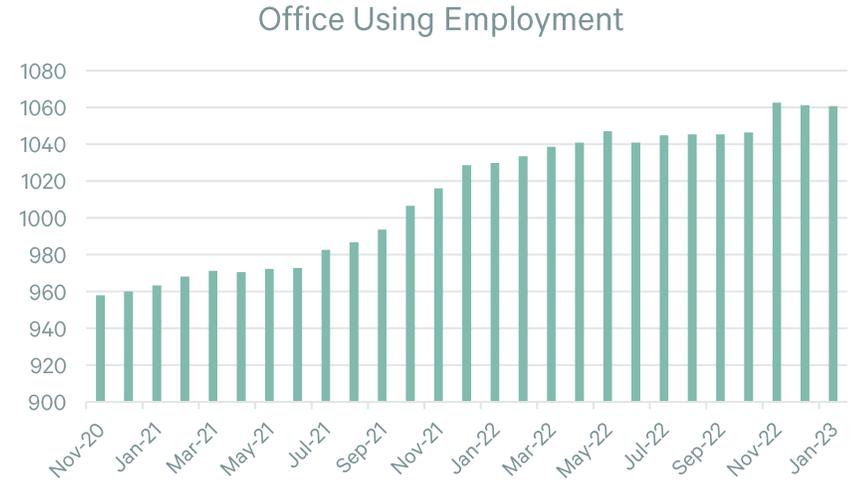
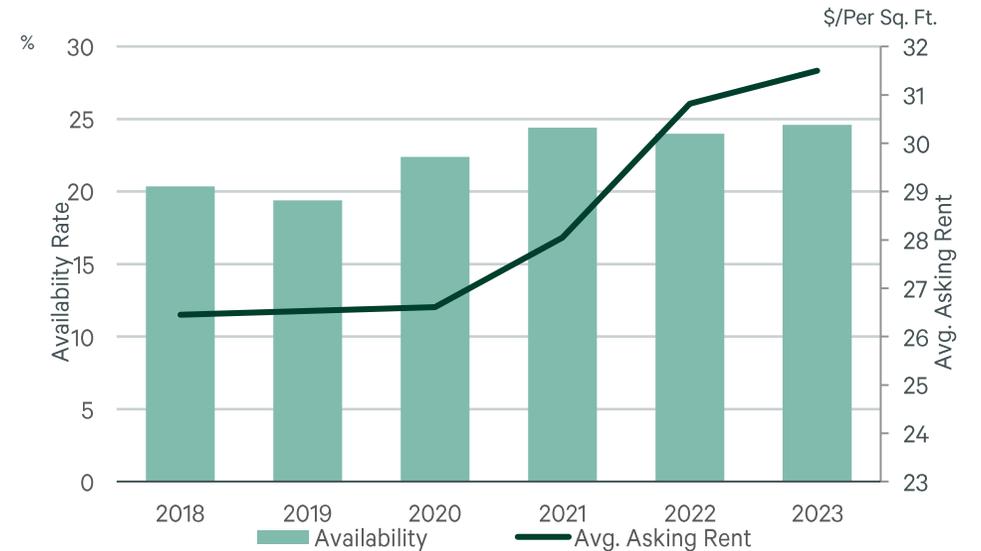


FIGURE 2: Historical Availability and Asking Rent



Source: CBRE Research, Q1 2023

Northern Jersey registered 639,000 sq. ft. of leasing activity, accounting for 61% of Q1’s total, but 26% below its five-year quarterly average. Two new leases totaling over 287,000 sq. ft.—a 240,000 sq. ft. lease at 66 Morris St. in Morristown and a 47,000 sq. ft. commitment at 400 Campus Dr in Florham Park— propelled leasing in Northern New Jersey. For the second quarter in a row, the Morristown submarket led all submarkets in leasing activity with 301,000 sq. ft.— 132% above the five-year quarterly average due to the pre-lease at 66 Morris Street by the pharmaceutical company Sanofi. This large transaction’s completion brought an end to fierce competition for this space leaving several requirements in need of alternative solutions in the market. Despite weakness in the overall market, this transaction signifies the desire for new or high-quality space, well-located, amenity rich offerings. Suburban Essex/Eastern Morris also saw some improvement in leasing activity in Q1 2023, registering 53,000 sq. ft. after seeing 3 straight quarters below 50,000 sq. ft. These two submarkets helped Northern Jersey’s outpace Central Jersey’s 408,000 sq. ft. of quarterly leasing by 57%.

Central Jersey’s 408,000 sq. ft. of leasing activity was an 85% improvement from Q4 2022’s figure of 221,000 sq. ft. of leasing activity. The Parkway Corridor submarket led Central Jersey leasing activity for the second consecutive quarter with 221,000 sq. ft. of leasing activity—106% above its five-year quarterly average. The 131,000 sq. ft. commitment from Wells Fargo at 194 Wood Ave South, a class A building in Iselin, was the largest deal in Central Jersey and second largest deal of the quarter. Greater Monmouth County also saw improved leasing, with 85,000 sq. ft., of leasing activity—a 536% increase after only registering 13,000 sq. ft. in Q4 2022.

Renewals— which are not included in leasing activity – increased 17% quarter-over-quarter to 547,000 sq. ft. After making up only 21% of the total leasing velocity (new leases and renewals), in 2022, renewals made up 34% of total leasing velocity in Q1 2023. AT&T Corporation had the largest renewal of the quarter, 70,953 sq. ft. at 15 East Midland Ave in Paramus

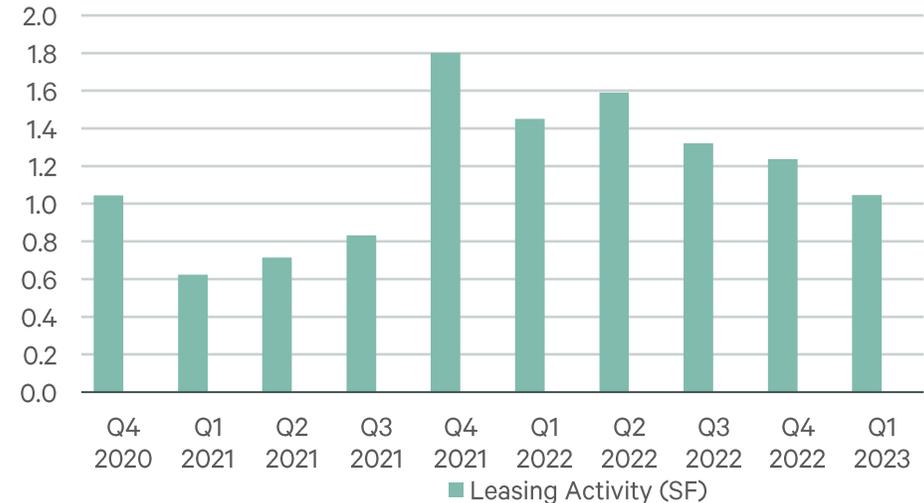
### Net Absorption and Availability

The Northern and Central New Jersey office markets absorption was negative 702,000 sq. ft. pushing the availability rate up 60 bps quarter-over-quarter to 24.6% and back to the record high seen in Q3 2021. Several blocks between 50,000 – 99,999 sq. ft were added to the market and contributed 407,000 sq. ft. of negative absorption. One of those blocks was a 55,000 sq. ft. block of direct space in the Rt 287/Piscataway/Brunswicks submarket at 220 Davidson Ave in Franklin Township.

FIGURE 3: Top Lease Transactions, Q1 2023

Tenant	Address	Size (SF)	Transaction Type
Sanofi	66 Morris Street	240,000	New Lease
Wells Fargo	194 Wood Ave South	131,000	New Lease
AT&T Corporation	15 East Midland Avenue	70,953	Renewal
Shionogi, Inc	400 Campus Drive	47,797	New Lease
Forbes, Inc.	499 Washington Boulevard	46,360	Renewal

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



Source: CBRE Research, Q1 2023

For the quarter, 12 of the 20 submarkets yielded negative absorption and increasing availability. Despite the overall increase in supply, the Meadowlands and Route 17 Corridor submarkets had the highest quarterly absorption totals - with a combined positive absorption over 680,000 sq. ft. This was due to the removal of office buildings being slated for being repurposed for alternative uses. Conversion and demolitions for new use continued to be a major trend in the New Jersey market. During Q1 2023, more than one million sq. ft. was slated for removal from office use.

The Waterfront submarket’s availability increased for the fifth consecutive quarter. The availability rate ticked up 440 bps to an all-time high of 32.2%. Waterfront had 20 blocks larger than 100,000 sq. ft. available on the market, the most of any submarket; The largest blocks of space added was about 239,000 sq. ft. of sublet space at 121 and 221 River St. in Hoboken. The space at 121 River St. was put on the market by Ernst & Young, while the space put on the market at 221 River St. was put on by Rubbermaid and Snow Joe.

The sublease availability rose 30 bps quarter-over-quarter to 5.2%. The main contributor to the increase was 249,000 sq. ft. of space being added by Wyndham Hotels & Resorts at 22 Sylvan Way in Parsippany. Sublease space now totals 7.95 million sq. ft., or 21% of all available space in the North and Central New Jersey market. Currently, blocks larger than 50,000. sq. ft. represents 59% of sublease space available. This was up 10 bps quarter-over-quarter. However, sublet space leasing saw a sharp decline, registering under 100,000 sq. ft. of leasing activity in Q1, after seeing over 450,000 sq. ft. of leasing in Q4 2022.

## Rent Trends

The average asking rent for the Northern and Central New Jersey office market continued to rise reaching \$31.50 per sq. ft. in Q1. This total was up 2% quarter-over-quarter. The market’s steady improvement in average asking rent over the past four quarters has resulted in an increase of 11% since Q1 2022. These increases can be traced to two factors: concentrated demand in better product and partially due to the elevated levels of available space with above average pricing in the market. Class A rents increased 9% year-over-year to \$34.34 per sq. ft. and are seeing a 38% premium compared to Class B rent. Class B rents are up about 3% from the same time last year.

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

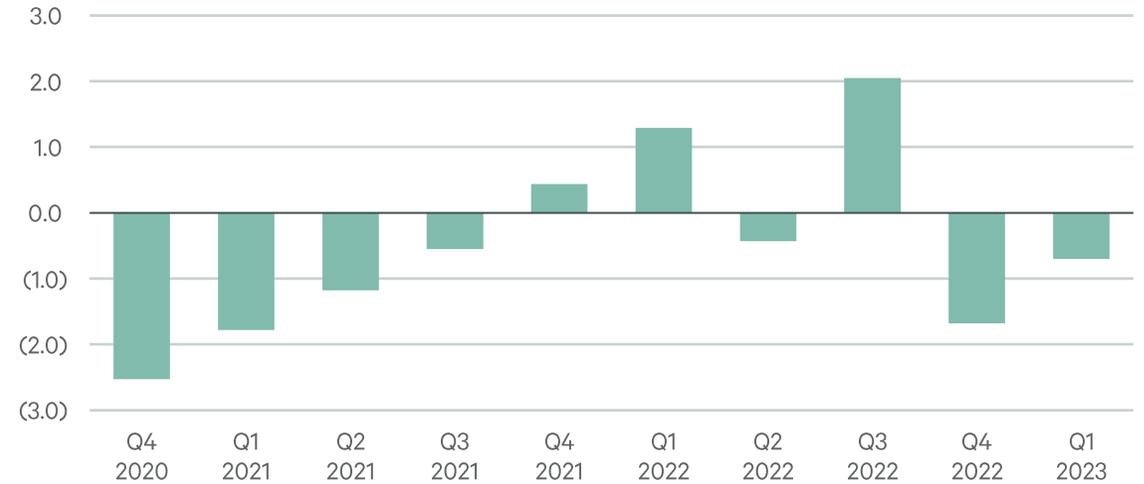
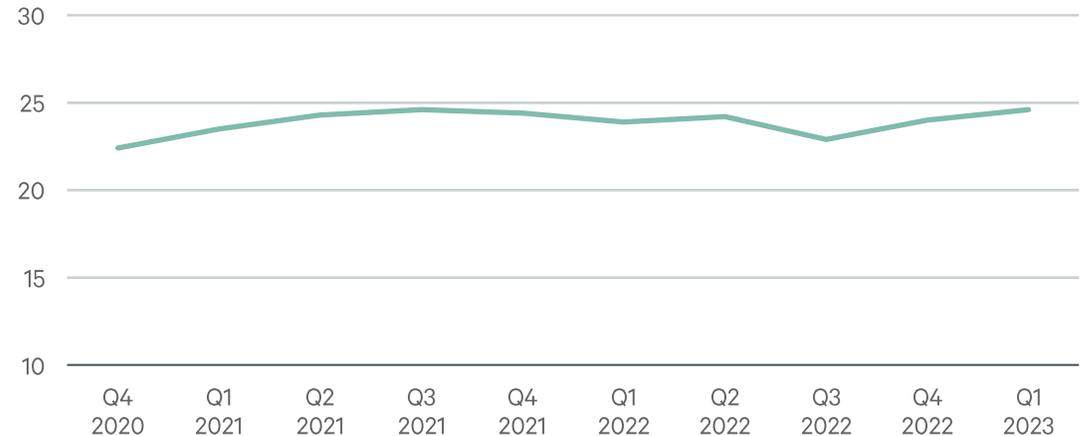


FIGURE 6: Availability Rate (%)



Source: CBRE Research, Q1 2023

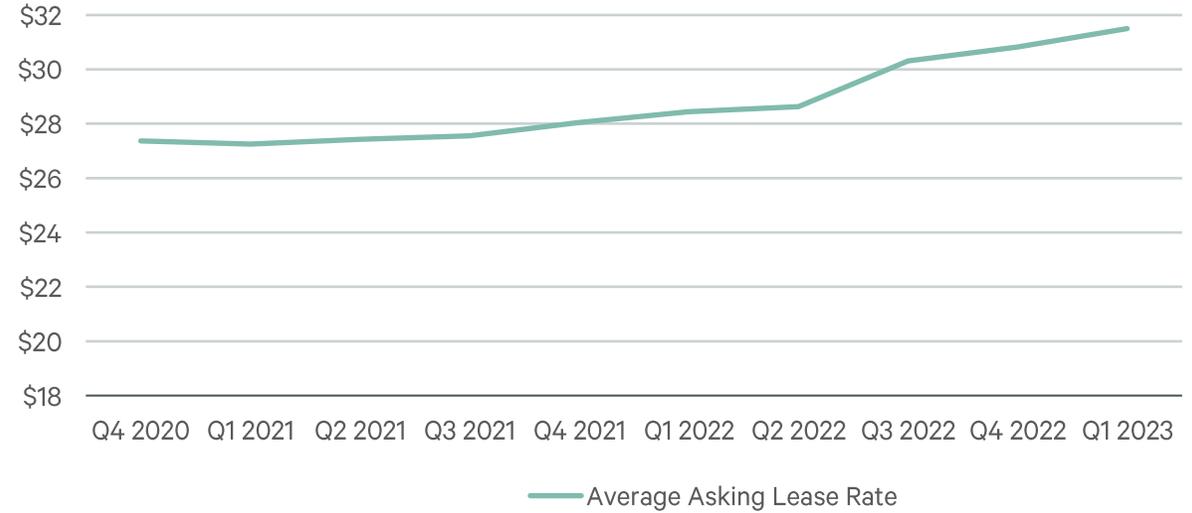
The average asking rent in Northern New Jersey was \$33.18 per sq. ft., up 3% quarter-over-quarter, and up 14% year-over-year. Central New Jersey’s average asking rent was \$27.91 per sq. ft., relatively flat quarter-over-quarter, and up 3% year-over-year.

Nine of the twenty submarkets saw average asking rent increase quarter-over-quarter. The largest quarterly change occurred in the Princeton submarket, which rose 3% quarter-over-quarter to \$29.78 per sq. ft. This was partially due to higher-priced direct space being added to the market at Carnegie Center in Princeton. The Waterfront submarket, which is primarily Class A assets, saw overall asking rent remained flat quarter-over-quarter and is up 2% annually to \$43.91 per sq. ft. The Class A Waterfront rent was \$44.23 per sq. ft. in Q1 2023.

## Investment Sales

In Q1 2023, total investment sales volume for office properties fell 87% quarter-over-quarter to \$69 million. This is the lowest recorded quarter in over 10 years. The largest individual sale in Q1 was 700 Route 46 in Fairfield, a 48,000 sq. ft. class B office building. The property sold for \$7.63 million or \$159 per sq. ft. bought by 700 Route 46 Office LLC.

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



Source: CBRE Research, Q1 2023

FIGURE 8: Notable Sales Transactions

Address	Size (Sq. Ft.)	Price (Millions)	Price/Sq. Ft	Buyer
700 Route 46, Fairfield	48,000	\$7.63	\$159	700 Route 46 Office LLC
1139 East Jersey Street, Elizabeth	45,000	\$7.50	\$167	Teresita Levato
401-405 Bethel Road, Somers Point	24,480	\$6.86	\$280	SSA Somers Point LLC
921-923 Elizabeth Avenue, Elizabeth	31,665	\$6.37	\$201	County of Union
31 Schalks Crossing Road, Princeton	50,150	\$5.85	\$117	Princeton Life Science Park LLC

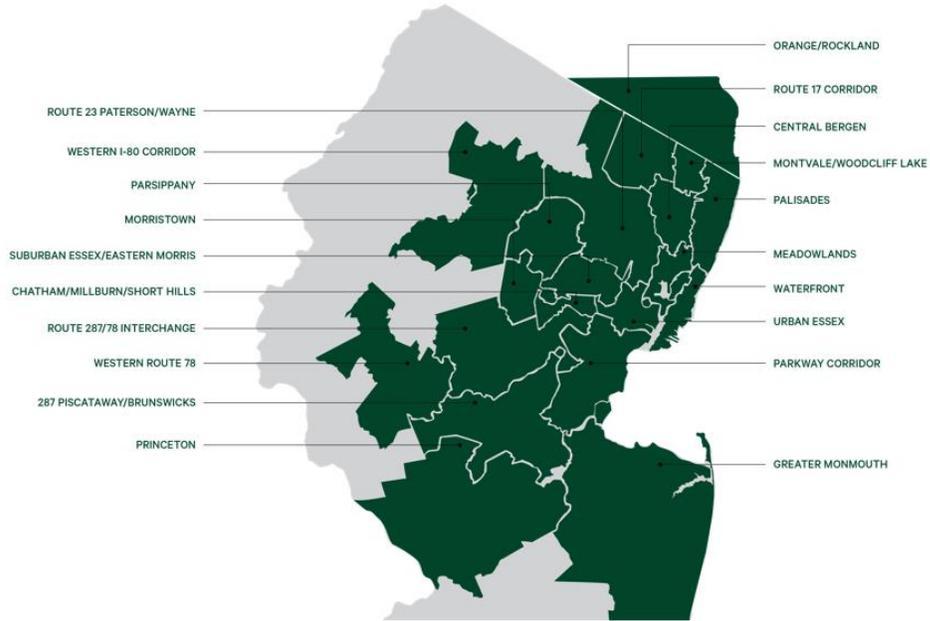
Source: CBRE Research, Q1 2023

FIGURE 19: Q1 2023 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	31.7%	\$23.17	2,643	11,182	(87,347)	(87,347)
Palisades	4.97	18.7%	\$31.92	39,078	0	(5,521)	(5,521)
Montvale/Woodcliff Lake	3.22	21.9%	\$26.32	10,335	0	(3,107)	(3,107)
Route 17 Corridor	2.85	2.7%	\$23.65	17,988	0	348,961	348,961
Central Bergen	5.77	17.7%	\$27.18	49,500	126,435	(72,769)	(72,769)
Route 23/Paterson/Wayne	5.65	20.0%	\$21.66	14,409	0	7,009	7,009
Waterfront	19.86	32.2%	\$43.91	38,352	68,154	(1,086,529)	(1,086,529)
Meadowlands	4.63	21.1%	\$27.07	52,518	0	337,634	337,634
Newark	12.94	20.0%	\$31.96	0	3,042	73,549	73,549
Suburban Essex/Eastern Morris	7.53	24.7%	\$26.41	52,941	61,192	(104,943)	(104,943)
Parsippany	13.64	30.1%	\$28.00	25,115	87,077	(170,926)	(170,926)
Morristown	8.74	28.9%	\$30.17	301,071	3,983	(225,515)	(225,515)
Western I-80 Corridor	0.79	42.5%	\$22.76	0	14,354	(28,961)	(28,961)
Chatham/Millburn/Short Hills	0.90	33.8%	\$46.22	34,640	0	(123,000)	(123,000)
<b>Northern New Jersey Total</b>	<b>94.02</b>	<b>25.3%</b>	<b>\$33.18</b>	<b>638,590</b>	<b>375,419</b>	<b>(1,141,465)</b>	<b>(1,141,465)</b>
Parkway Corridor	9.43	23.5%	\$33.22	221,258	83,189	(243,017)	(243,017)
Route 287/78 Interchange	19.48	21.8%	\$27.23	21,945	79,575	212,571	212,571
Western Route 78	2.43	65.6%	\$16.45	0	0	84,281	84,281
Route 287/Piscataway/Brunswicks	6.89	17.7%	\$22.17	49,919	3,789	215,493	215,493
Greater Monmouth County	4.75	20.4%	\$27.61	84,699	5,200	232,120	232,120
Princeton	15.44	22.1%	\$29.78	29,948	0	(62,435)	(62,435)
<b>Central New Jersey Total</b>	<b>58.43</b>	<b>23.4%</b>	<b>\$27.91</b>	<b>407,769</b>	<b>171,753</b>	<b>439,013</b>	<b>439,013</b>
<b>New Jersey Total</b>	<b>152.45</b>	<b>24.6%</b>	<b>\$31.50</b>	<b>1,046,359</b>	<b>547,172</b>	<b>(702,452)</b>	<b>(702,452)</b>

Source: CBRE Research, Q1 2023

## 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

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