



AVISON
YOUNG

New Jersey Office Insight Report

Q3 2021

AVANT
by AVISON YOUNG

AVISON
YOUNG



8:28 pm
Garden State Plaza
Saturday, Sept 25



8:56 am
Pier Village
Sunday, Sept 26



1:43 pm
Teaneck
Thursday, Sept 30



2:27 pm
Paramus
Sunday, Sept 26



2:37 pm
MetLife Stadium
Sunday, Sept 26



12:49 pm
Morristown
Monday, Sept 27

Key takeaways



Economic conditions

- Reopening efforts and higher vaccination rates have allowed the New Jersey unemployment rate to rebound from a high of 16.6 percent in May 2020 to **6.7 percent** in August 2021.
- Since the start of the pandemic, office-using job losses have totaled **4.1 percent**, lower than the **6.3 percent** job losses reported for the entire New Jersey labor market.



Recovery rate

- Traffic on the New Jersey Turnpike and the Garden State Parkway has decreased **5.7 percent** and **4.3 percent** respectively since July 2019. However, the traffic on these major arteries has increased **26.3 percent** on the New Jersey Turnpike and **11.9 percent** on the Garden State Parkway when compared with July 2020.
- Weekday ridership on PATH trains has decreased by **65.0 percent** since August 2019. However, ridership has been increasing every month since February 2021.



Office demand

- Post-COVID annualized leasing activity slowed by **43.9 percent** compared with the prior 20-year historical average. Leasing activity remains low as companies' real estate needs remain uncertain with the emergence of the Delta variant.
- Two major New Jersey tenants signed leases to relocate within the state. Cigna Corp. leased **196,693 sf** at 115 Tabor Road in Morris Plains, moving from their former Franklin Lakes location, while Fiserv leased **430,000 sf** at 100 Connell Drive in Berkley Heights, consolidating their Parsippany and Jersey City offices.

Key takeaways



Office supply

- Direct and sublease availability is at its highest rate since 2005, totaling **19.1 percent**.
- The sublease market continues to drag aggregate fundamentals, accounting for a record **9.2 msf** of available space, comprising **17.1 percent** of total available space.



Pricing trends

- Base rents have moderately decreased by just **3.1 percent** since the second quarter of 2020 and **0.5 percent** year to date. Rents have not fallen as expected during periods of high vacancy, as landlords have been unwilling to lower base rents due to increased operating costs and potential capital markets implications.
- Landlord concessions continue to rise throughout the pandemic with tenant improvement increasing **10.5 percent** year to date. With tenant demand low, concessions are not expected to drop through the rest of 2021.



Capital markets

- Sales volume continues to remain strong with a total of **\$2.1 billion** recorded year to date. Major transactions include Healthpeak Properties' purchase of the South Street medical complex in Morristown and The Birch Group's purchase of 101 Hudson Street in Jersey City.
- Asset pricing has remained relatively flat during the pandemic, moderating by **-2.4 percent** since 2019.

01.

Economic and demographic trends

The unemployment rate continues to fall, while labor participation starts to rise. Public transportation ridership improves but lags behind private vehicle usage on the road to recovery.

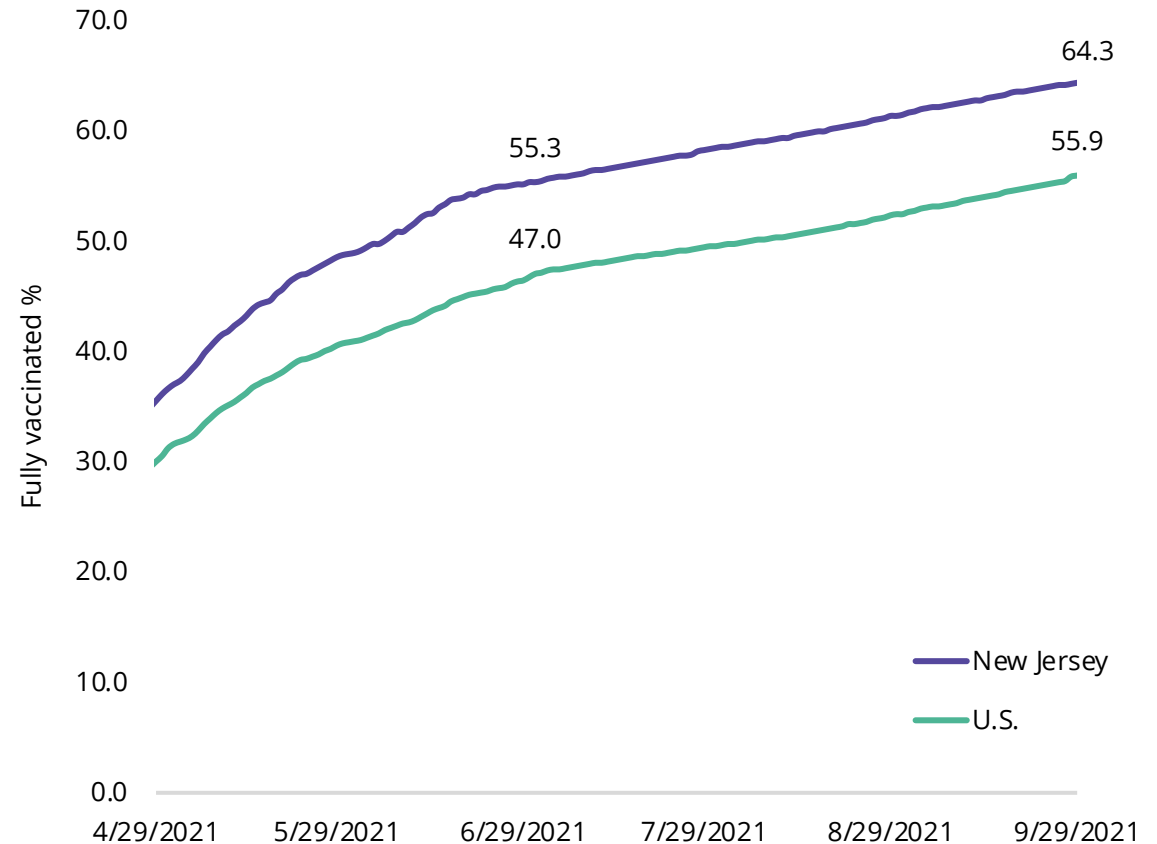


Vaccination rates

64.3%

Share of total New Jersey population that is fully vaccinated

New Jersey's proportionate vaccination rates have surpassed U.S. averages. New Jersey vaccination rates increased by 9.0 percentage points during the third quarter. This number can be expected to rise if President Biden's vaccine mandate takes effect.



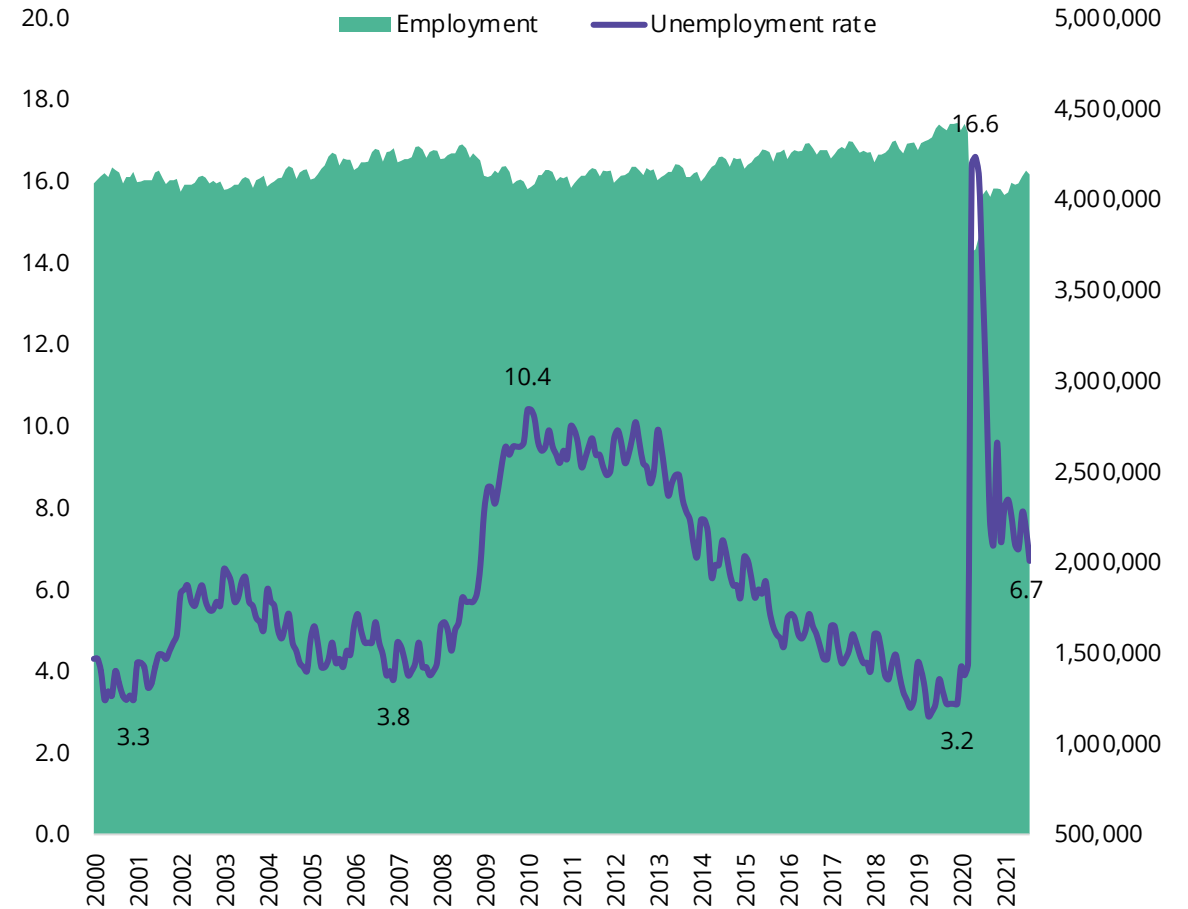
Source: CDC

Employment and unemployment rate

6.7%

New Jersey unemployment rate as of August 2021, the lowest rate reported since the start of the pandemic

Reopening efforts enabled the economy to add over 428,000 jobs since April 2020. This has brought the total number of people employed to 93.7% of pre-pandemic levels.



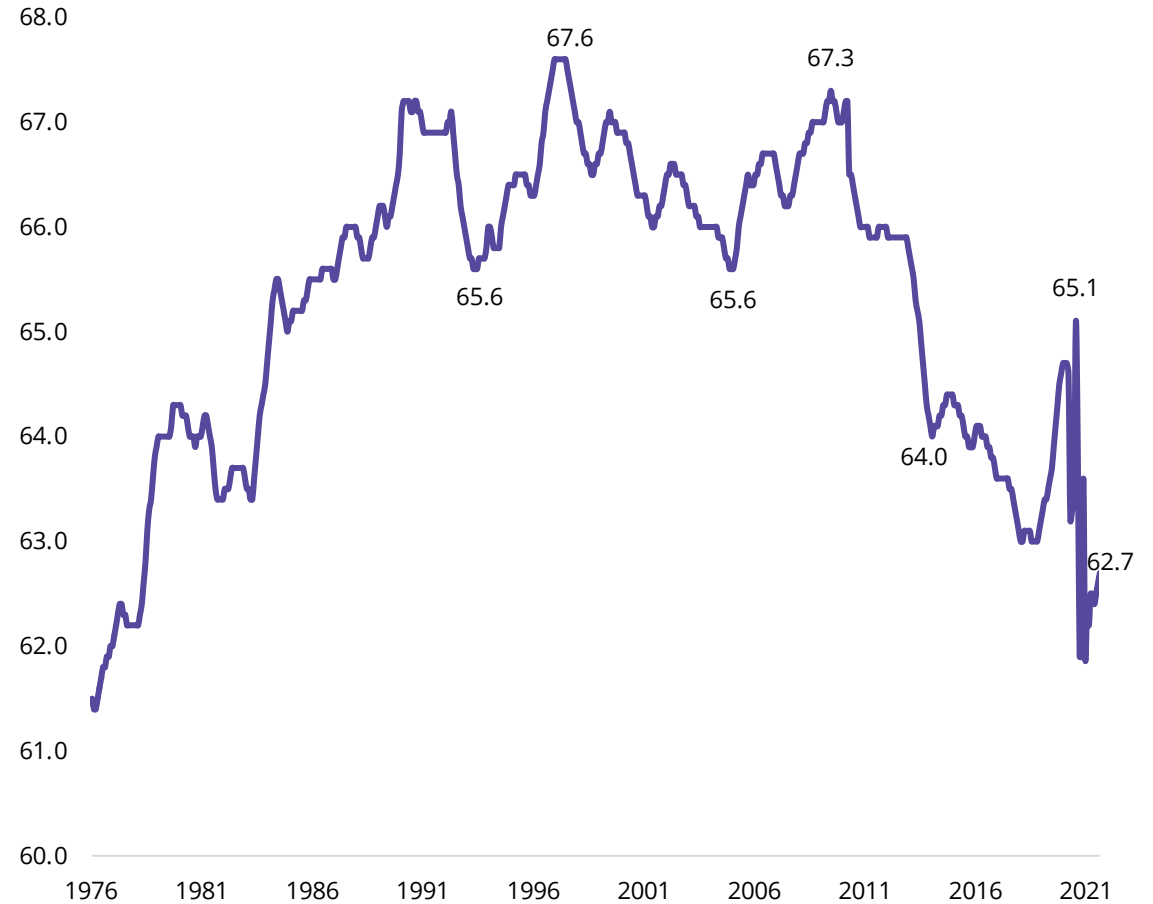
Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Labor force participation rate

62.7%

New Jersey labor force participation rate as of August 2021, falling 120bp year over year

More adults were expected to return to the labor force after Labor Day, when most children were expected to return to in-person learning and federal unemployment benefits expired. The emergence of the Delta variant and the newly announced vaccine mandate may have temporarily discouraged some prospective workers from returning to the labor force.



Note: Seasonally adjusted data. Labor force participation rate is the number of people in the labor force divided civilian population.
Source: Bureau of Labor Statistics

Office-using job gains and losses

-4.1%

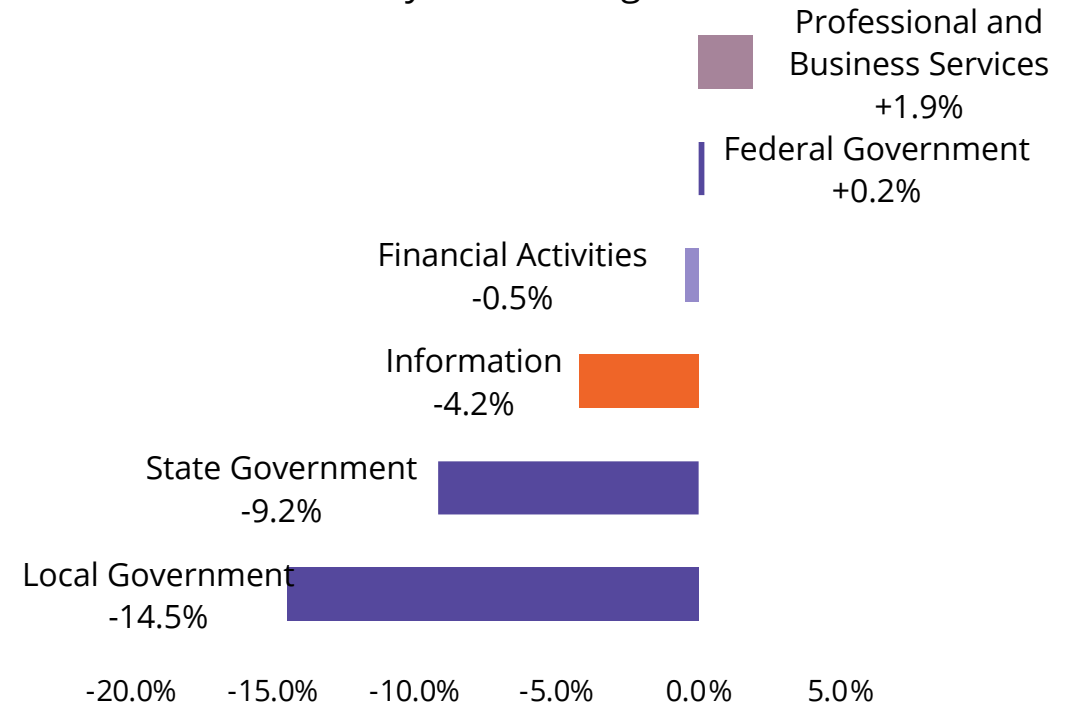
Change in office-using employment during the pandemic

The number of jobs in New Jersey has declined by 6.3% since the start of the pandemic, though office-using jobs were reduced by just 4.1%. This recession's impact on the office-using labor market has been more severe than the Global Financial Crisis, when office-using job losses totaled 3.3%.

[VIEW DASHBOARD](#)

Total change in New Jersey job gains/(losses)

February 2020 to August 2021



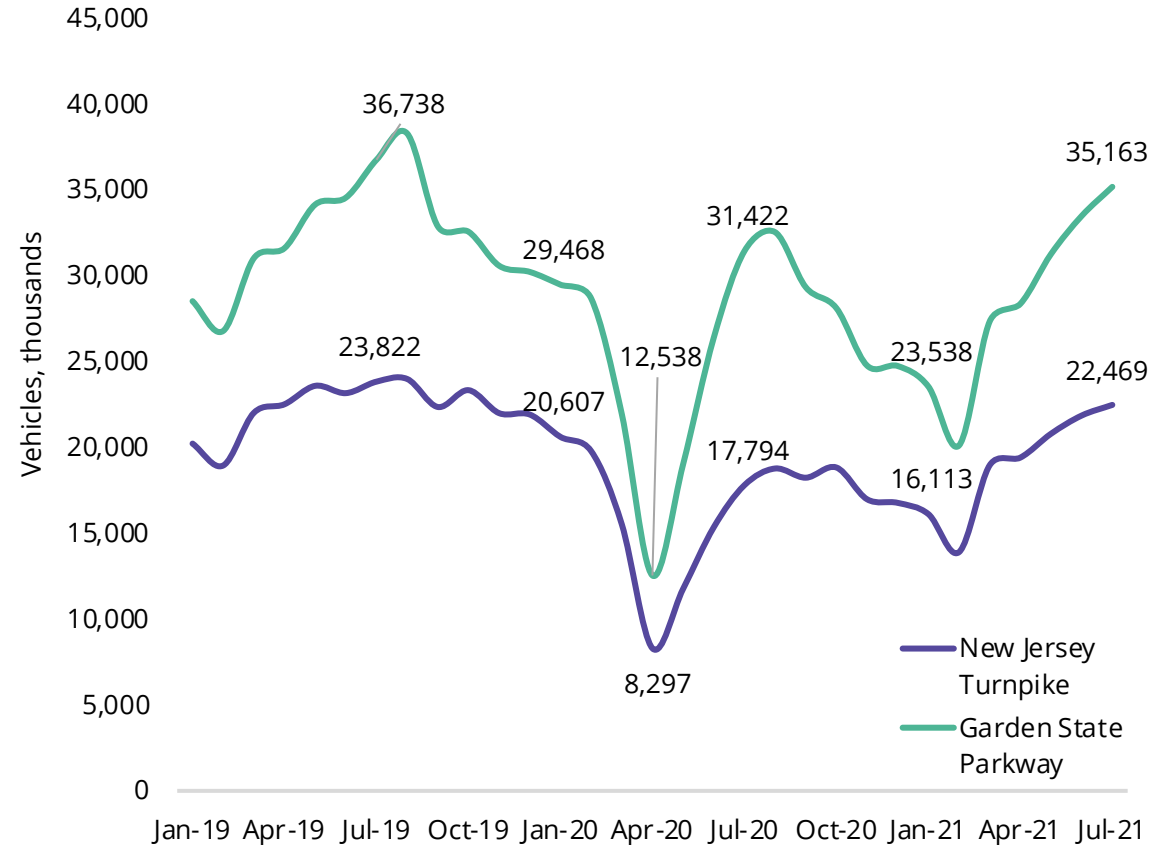
Note: Not seasonally adjusted data. State of New Jersey
Source: Bureau of Labor Statistics

New Jersey highway driver activity

-4.8%

Drivers on the New Jersey Turnpike and Garden State Parkway since July 2019

Traffic on the New Jersey Turnpike and Garden State Parkway is down 5.7 percent and 4.3 percent respectively since July 2019. However, traffic is cumulatively 17.1 percent higher versus the vehicle traffic reported in July 2020.



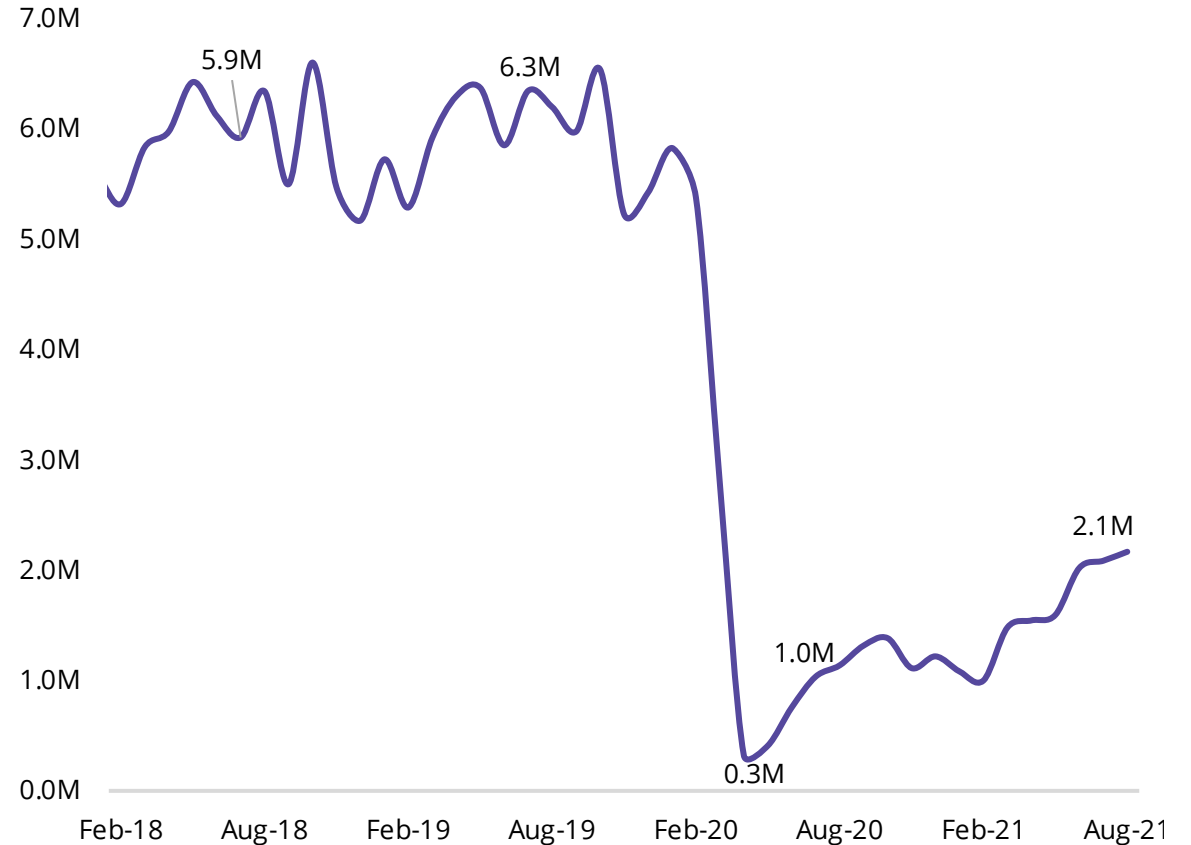
Source: New Jersey Turnpike Authority

PATH train weekday ridership

-65.0%

Weekday ridership on PATH trains since August 2019

Weekday ridership at Port Authority of New York and New Jersey-operated PATH trains has decreased by 65.2% at New Jersey stations and 65.0% overall since August 2019. However, total weekday ridership has increased by 90.5 percent since July 2020.



Source: Port Authority of New York and New Jersey

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Office occupier conditions

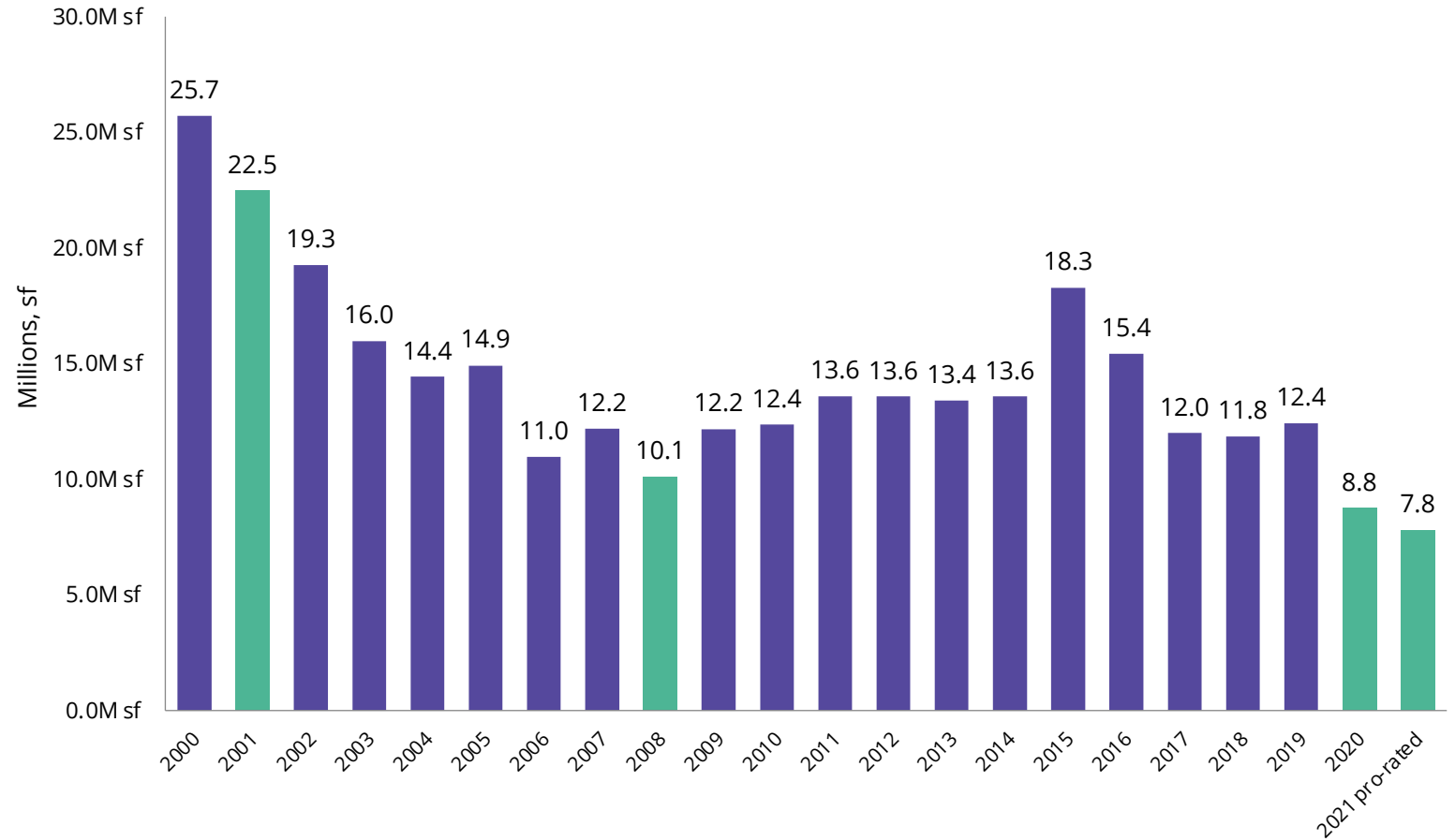
Leasing activity took a step back in Q3 after a strong Q2 as tenants pressed pause on their real estate and return to office plans as a result of the Delta variant.

Office leasing activity

-43.9%

2020-pro-rated 2021 vs. prior 20-year annual average leasing activity

The leasing activity in Q3 slowed down to 1.3 msf after Q2 showed signs of a recovery with a promising 3.0 msf in leasing activity. This drop may be partly attributed to companies extending their remote work options for their employees.

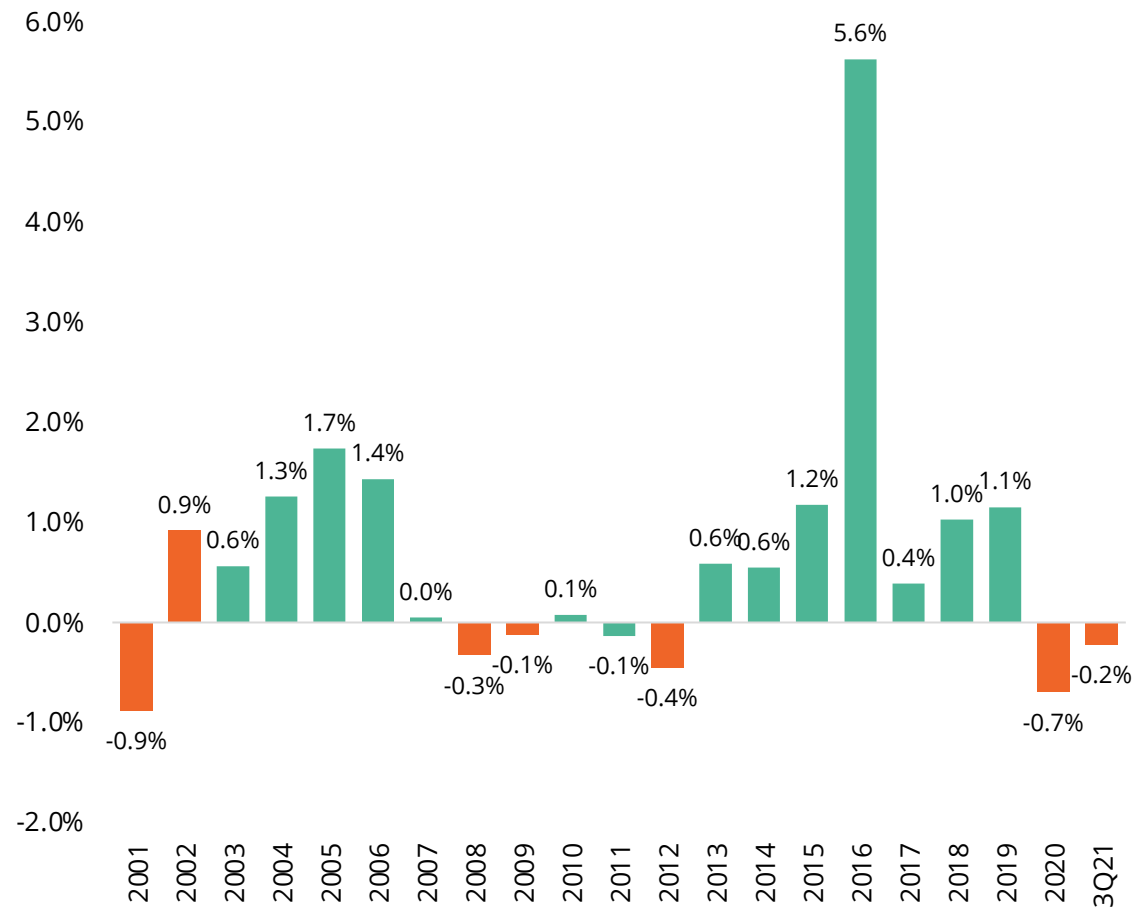


Source: Costar
Note: Includes both New and Renewal transactions

-0.9%

Net absorption as a percentage of inventory, 2020 through Q3 2021

Negative absorption from 2020 to Q1 2021 has totaled 2.6 million sf, or -0.9% of the existing stock. It is unlikely that there will be positive absorption soon as companies continue to remain uncertain of their real estate needs partly as a result of the emergence of the Delta variant.



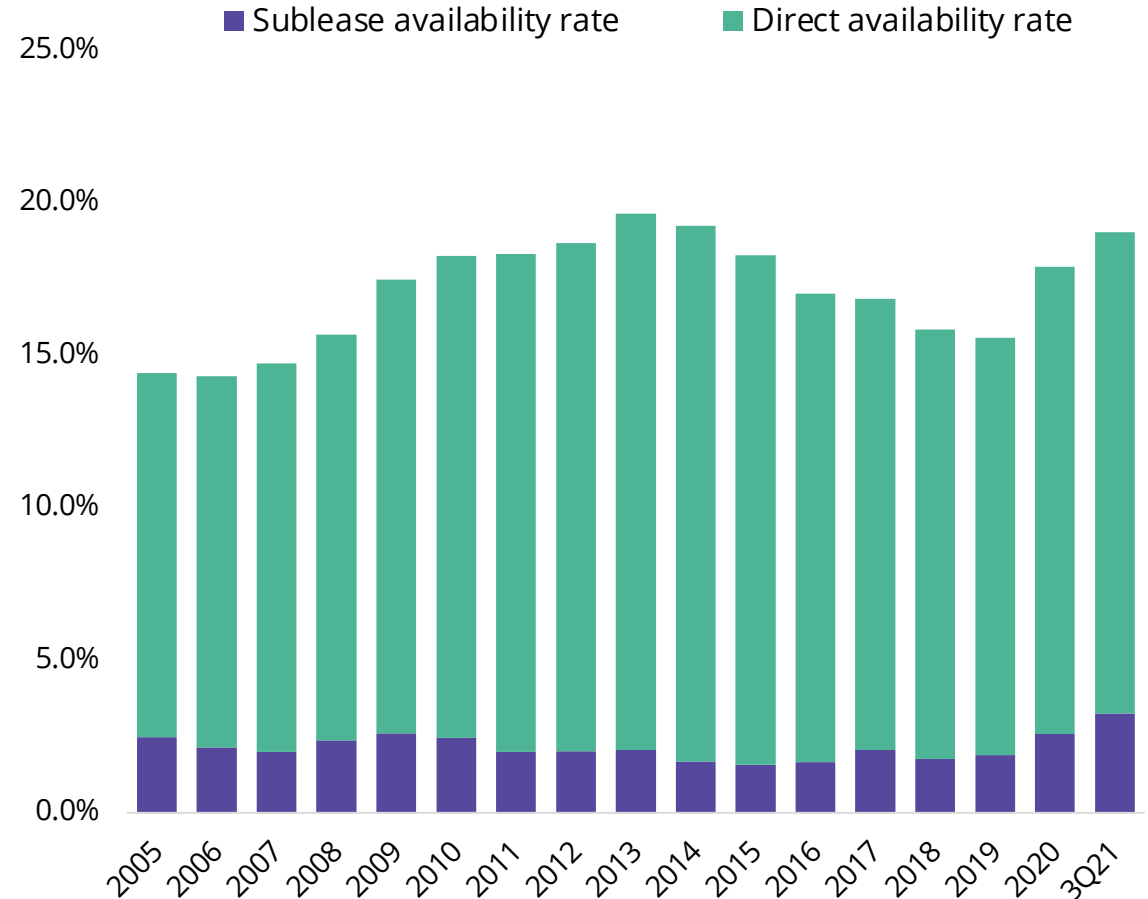
Source: AVANT by Avison Young

Availability rate

19.1%

Availability rate as of Q3 2021

The Q3 2021 availability rate is at its highest rate since 2015, driven largely by the high sublease rate, which is currently 3.3%, while the direct availability rate is 15.8%. This is a result of companies either leaving the state for more tax friendly options or companies looking to reduce their real estate footprint as a result of the pandemic.



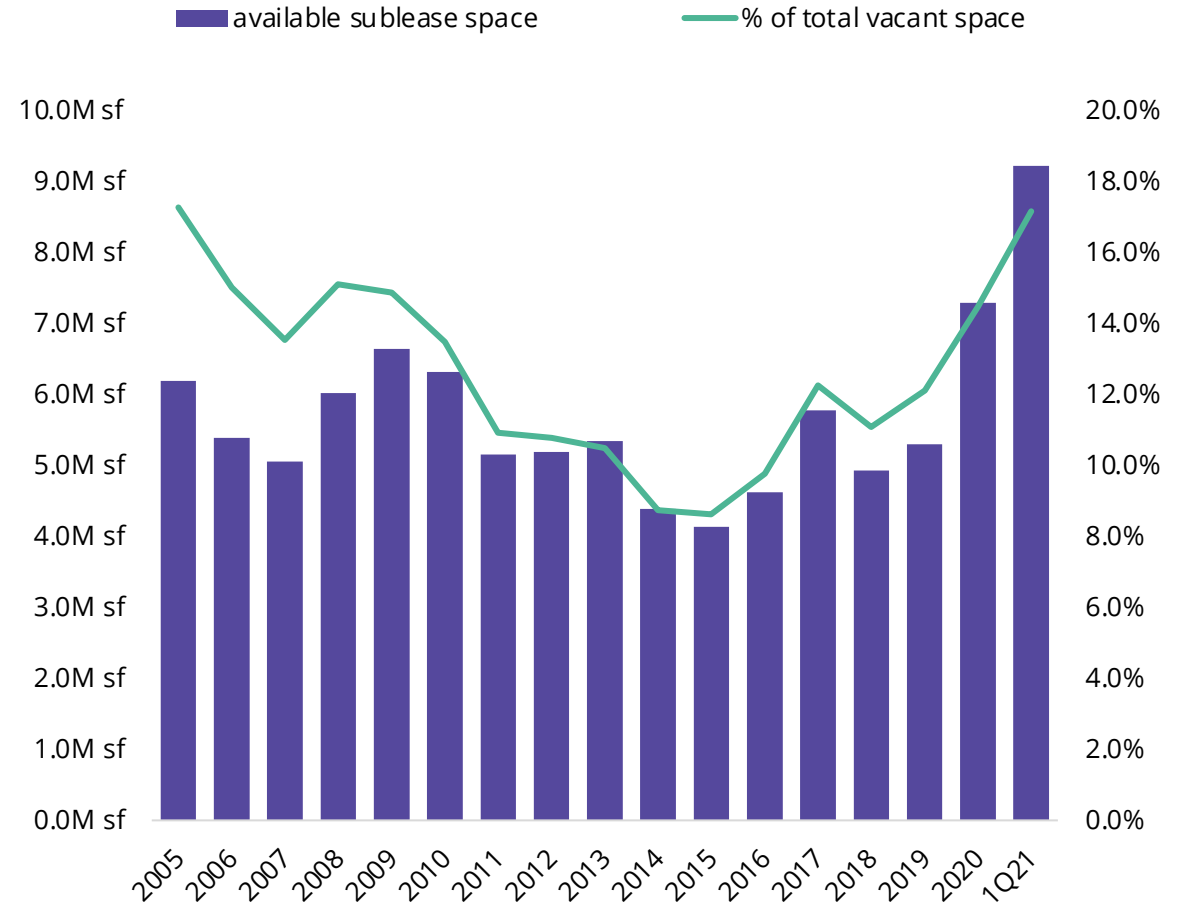
Note: References available spaces at existing, under construction and under renovation properties with an indefinite horizon.
Source: CoStar, AVANT by Avison Young

Available sublease space

9.2 msf

Post-2005 record levels of available sublease space

The share of sublease-to-total available space of 17.1% has not been this high since 2005 when it was 17.3%. The pandemic has forced many companies to reconsider how much space they need.



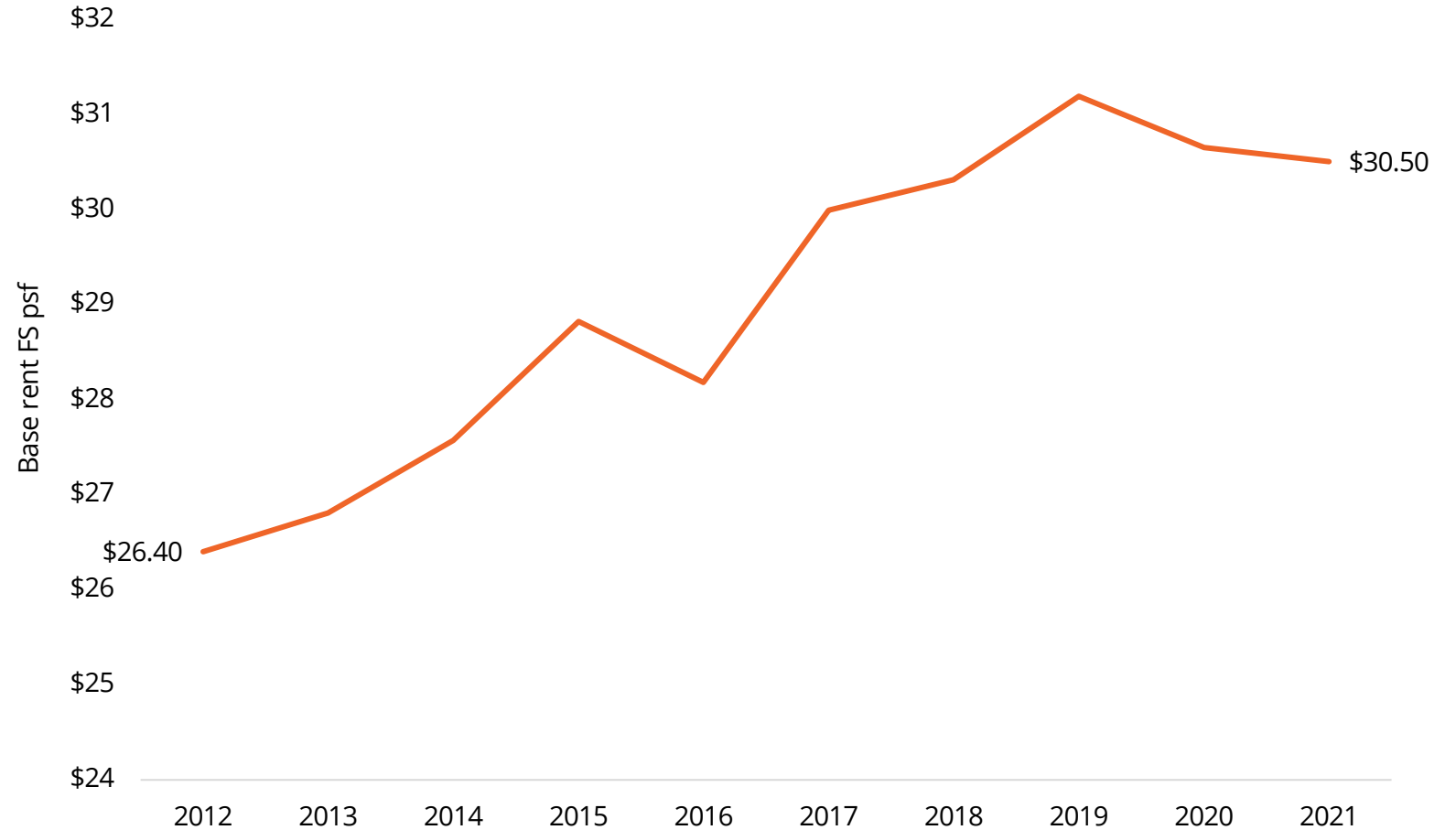
Note: References available spaces at existing, under construction and under renovation properties with an indefinite horizon.
Source: CoStar, AVANT by Avison Young

Base rents

-0.5%

Change in base rents, year-to-date 2021

Base rents have stayed relatively flat during the pandemic, increasing by a modest 3.1% since Q2 2020. This can be attributed to a lack of demand coupled with landlords' reluctance to lower rents due to increased operating costs.

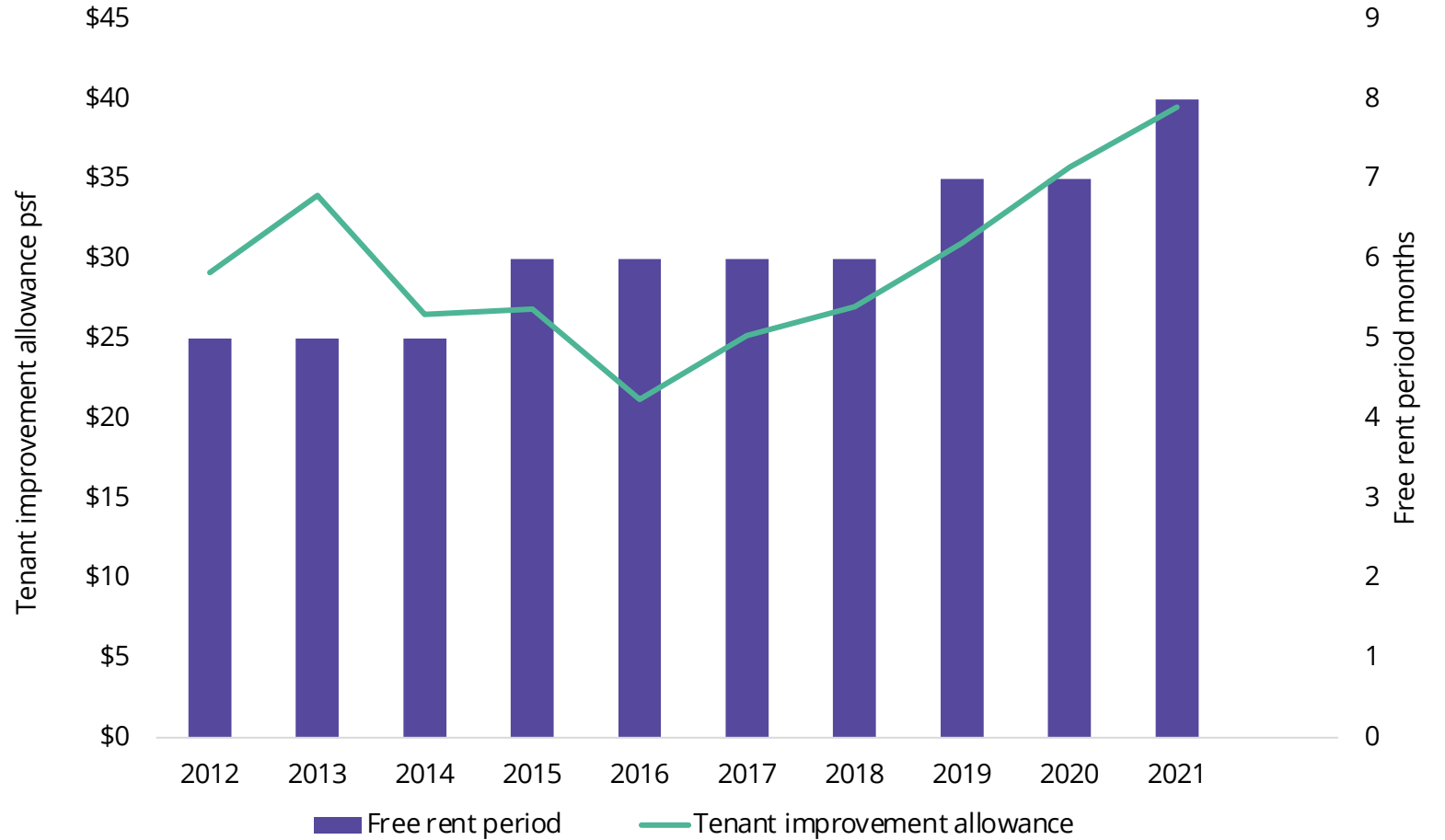


Note: Excludes subleases, expansions and renewals. Includes Class A and Class B properties.
Source: AVANT by Avison Young

10.5%

Change in tenant improvement allowance amounts, year-to-date 2021

Concessions have continued to rise as landlords incentivize tenants to fill their vacancies. These rates are not expected to decrease through the remainder of 2021, as tenant demand is posed to remain low.



Note: Excludes subleases, expansions and renewals. Includes Class A and Class B properties. Normalized to 10-year lease terms.
Source: AVANT by Avison Young

Office development pipeline

107 properties

proposed or under construction

21.7 msf

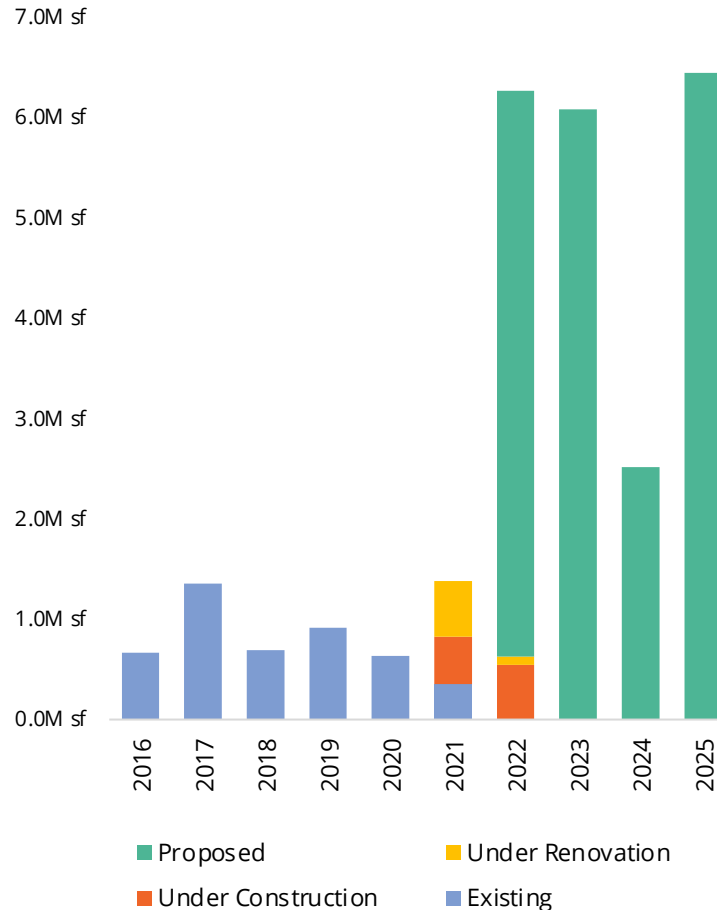
proposed or under construction

7.8%

share of office inventory

1979

average delivery date of existing New Jersey offices



Source: AVANT by Avison Young



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Capital market conditions

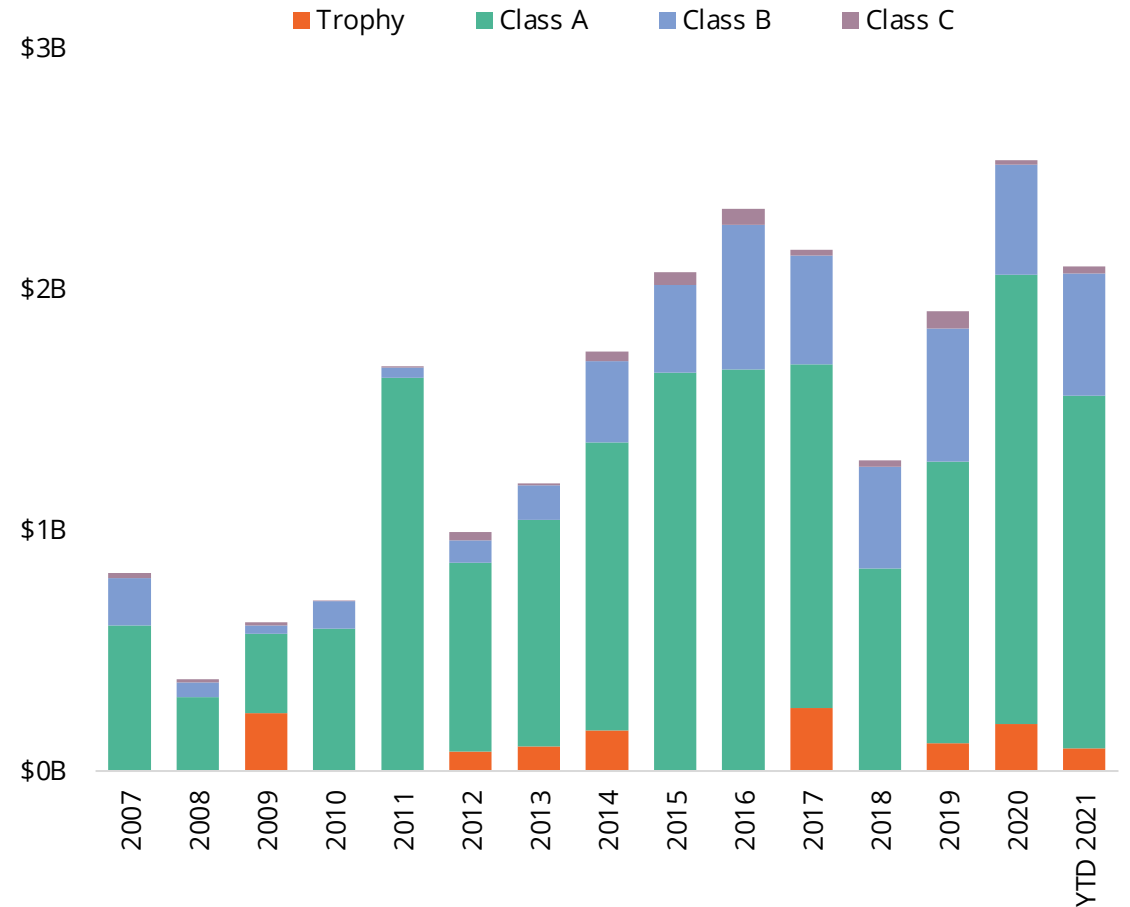
Investment activity continued to remain strong as investors gravitate towards Class A and Trophy buildings.

Office investment dollar volume

\$4.6B

New Jersey office dollar volume 2020 to present

Investment sales dollar volume in New Jersey has not slowed over the course of the pandemic. A few of the major transactions that occurred during the 3rd quarter include Healthpeak Properties' purchase of South Street medical complex in Morristown and Mack-Cali's sale of 101 Hudson Street in Jersey City to The Birch Group.



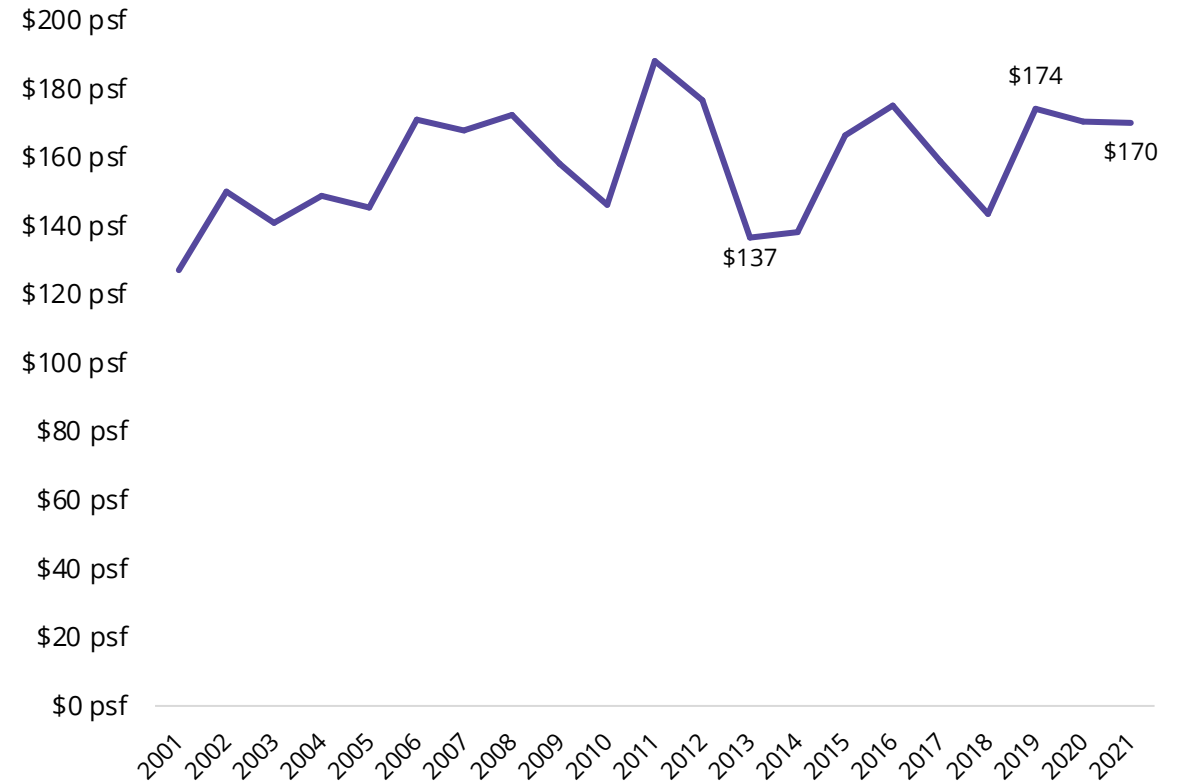
Source: AVANT by Avison Young.

Office asset pricing

-2.4%

Office pricing from 2019 to present

Pricing has stabilized since the start of the pandemic as Trophy and Class A buildings have comprised a commanding 91.0% of the total investment volume from 2020 to Q3 2021.



Source: AVANT by Avison Young, RCA, Costar

Looking forward



Here's what we can expect

- **The number of office properties being redeveloped for industrial and multifamily is increasing.**
Stagnant rents and high vacancies in the office market coupled with record-high rents in the industrial market and high demand for multifamily has forced many owners to consider redevelopment. This is evidenced by the recent sale and announced redevelopment of **400 Atrium** in Somerset into a warehouse/ distribution center and Onyx Equities' announced plans to replace **2 Hilton Court** in Parsippany with a warehouse. These conversions should help to stem additional supply risk in the office market.
- **The entire state legislature and Governor's office are being decided on November 2nd.** A few of the issues to be discussed include individual and corporate taxes, cost of living, and the exodus of residents and corporations to other states.
- **Asset pricing should remain stable** as investors prioritize high quality, stabilized product and interest rates are likely to remain low.

