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Market Review

Northern/Central New Jersey

Spring 2023

New Jersey's CRE market remains resilient thanks to a strong labor market and robust consumer demand

New Jersey has had a strong recovery from the pandemic, with unemployment at record lows. At 3.5%, the New Jersey unemployment rate is 10 basis points lower than the national average.

The National Consumer Price Index has increased 4.9% through the 12 months ending April 2023. This is an improvement over the June 2022 report which indicated a trailing-12-month increase of 9.1%. The price of shelter, cars and gasoline continue to be the largest drivers of inflation. The Fed funds rate has increased to 5.25%, yet elevated interest rates have not resulted in the anticipated recession. The first quarter of 2023 saw GDP growth of 1.1% and a strong labor market.

Both nationally and locally in New Jersey, the impact of rising interest rates and shifting trends in consumer demand have clearly impacted business decisions, the results of which continue to play out in the commercial real estate sector. The office market continues to see softening demand despite strong employment numbers, primarily due to changes in post-pandemic operational demands and a desire for amenity-rich space. Retail real estate in New Jersey maintains strong fundamentals and has over the past several years, thanks to the region's dense population and access to an affluent consumer base. Industrial has proved itself a wise investment time and again, and with the Northern/Central New Jersey region strategically positioned between busy ports and major cities, it is capitalizing on the continued growth of e-commerce, driving area rents to new highs.

Key Economic Statistics

3.0%
NJ Unemployment rate

919K / 0.7%
NJ Trade, Transportation & Utilities Jobs

721K / -0.5%
NJ Professional & Business Services Jobs

767K / 6.4%
NJ Education & Health Services Jobs

$3.60
Price of Gasoline in NJ

Economic Report Sources: Bureau of Labor Statistics www.bls.gov June 2023

Industrial Market

3.0% Direct Vacancy	$13.82 Net Rental Rate	599,526 SF Net Absorption	0 SF Under Construction

Northern/Central New Jersey's industrial market continues to outperform thanks to consistent demand from logistics companies, who help satisfy the densely populated region's consumer demand for online deliveries. The majority of assets here are seeing all-time high occupancy rates over 97%. High occupancies have in turn enabled landlords to push rents, and most assets in this region are renting for double what they rented for half a decade ago.

Class A assets are currently renting for a whopping $16.12 PSF, an increase of 13% just through early 2023; see Figure 1. All classes have seen significant rent gains, and fundamentals are expected to continue to improve thanks to nearly zero projects breaking ground in the first half of this year. The year 2022 saw 8 million square feet of space delivered to the market, but there was only 3.4M square feet in the pipeline. Fewer construction starts has likely contributed to increased competition for new space the first half of this year.

Net absorption is a positive 600K SF as of Spring 2023, and this is driven completely by Class A assets, indicating a flight to quality and an abundance of leases primarily signed in new product. Class B and C assets have seen negative net absorption of about 1.5M SF so far this year. Leasing activity in new assets has been robust with multiple new leases over 100,000 SF being signed through Spring 2023. See Figure 3 indicating notable leases, the largest being a new 845,000 SF lease signed by DMI Inc. in Hamilton, NJ.

Figure 1: Net Rent by Asset Class

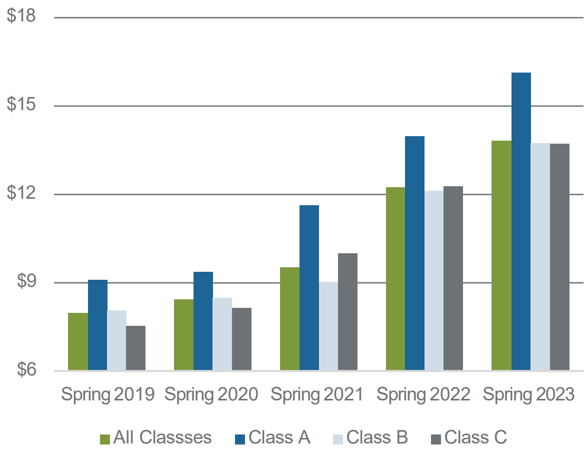


Figure 2: Percent of Direct Vacant Space by Class

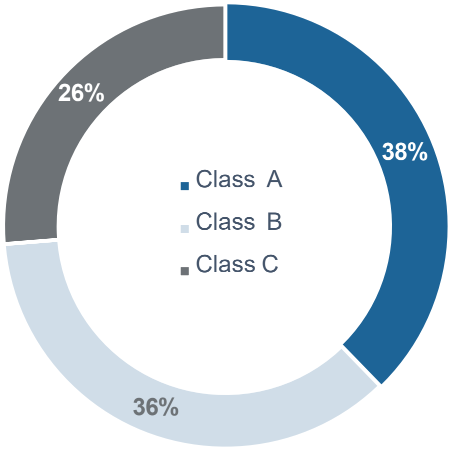


Figure 3: Notable Lease Transactions

Tenant	SF	Location	Type
DMI, Inc	845,078	1365 Lanberton Road, Hamilton	New
Vanguard Logistics	372,159	400 Linden Logistics Way, Linden	New
Experior Global	266,000	2000 Marketplace Blvd, Hamilton	New
Coda Logistics	321,765	400 Linden Logistics Way, Linden	New
Logistics Plus	175,000	150 Milford Road, Hightstown	New
Eastern Coach Company	160,000	601 Lehigh Avenue, Union	New
Sarconna Trucking	137,447	340 S Stiles Street, Linden	New
Barsan Global Logistics	120,584	176-192 McClellan Street, Newark	New

Source: NAIDB research analysis of CoStar data, Spring 2023

Office Market

12.5% Direct Vacancy	$25.02 Net Rental Rate	-981,239 SF Net Absorption	3,419.708 SF Gross Absorption	0 SF Under Construction

The office market in Northern/Central New Jersey mirrors the nationwide trend of muted demand, a consequence of hybrid work trends and occupiers' continued uncertainty around future space needs. The overall vacancy rate of 12.5% is in line with the national average, with Class A assets experiencing the highest vacancy, around 16%.

New Jersey has a strong labor market with unemployment near 3%. However, this has not necessarily translated to strong demand for office space. The post-pandemic landscape has been defined by weaker leasing activity and a flight to quality. Of the seven counties analyzed by NAIDB, net absorption through Spring 2023 was -981K SF, putting the area on track to end the year with nearly 2 million SF of negative net absorption. This is about double what the market saw in 2022. So far 474 leasing transactions have been recorded YTD, indicating the total space leased in 2023 is likely to come in under what was seen last year.

With occupancy around 85%, landlords have been able to push rents slightly. The improvement in the overall rental rate has been driven primarily by Class A assets, whose rents increased this year after several years of remaining flat. See Figure 4, which shows Class A rents at $27.44, an increase of about $0.70 PSF. Class B rents have been flat with no gain YTD, and continue to hover at $22.18 PSF. Interestingly, Class C assets lease for about $2.70 PSF less than what they rented for 5 years ago despite consistently high occupancy over 93%.

Class A assets have the highest availability at over 25% of total space, up from 17% pre-pandemic. Availability of sublease space continues to increase as well, and at 5.5% for Class A assets, is a two-decade high for the region. While there has been a flight to quality, much of New Jersey's Class A office stock doesn't offer the amenities of some new-construction

buildings. Only about 500K SF of new construction has occurred in the region over the last half-decade, consisting primarily of buildings with small footprints. This lack of new construction has helped balance the equation from the supply side, but to really make gains, owners have begun renovating or repurposing obsolete space to be more in line with the demands of today's tenants.

Figure 4: Net Rent by Asset Class

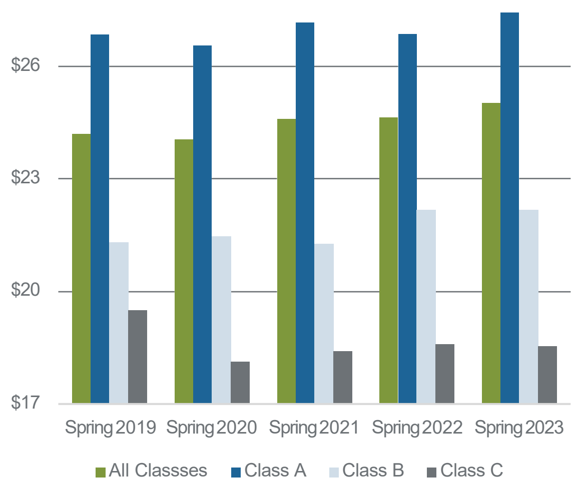


Figure 5: Percent of Direct Vacant Space by Class

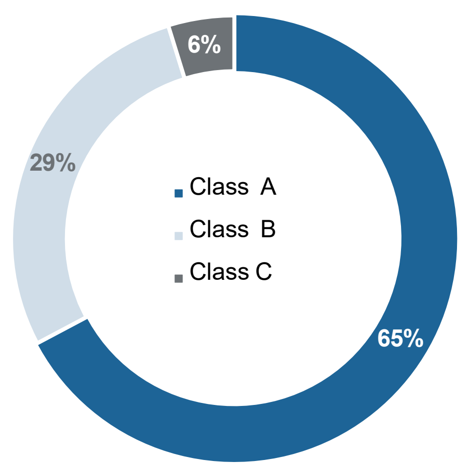


Figure 6: Notable Lease Transactions

Tenant	SF	Location	Type
Sanofi	260,000	M Station West, Morristown	New
Chubb Limited	213,220	202 Halls Mill Rd – Bldg. A, Whitehouse Station	New
Avis Budget Rental	212,535	Parsippany Corporate Center, Parsippany	Renewal
Munich Re America	145,590	555 College Road East, Princeton	New
Wells Fargo	131,000	Metropark Corporate Campus, Iselin	New
AbbVie	92,122	The Green At Florham Park, Florham Park	New

Source: NAIDB research analysis of CoStar data, Spring 2023

Retail Market

5.8% Direct Vacancy	$21.10 Net Rental Rate	407,840 SF Net Absorption	0 SF Under Construction

The retail story for the Northern/Central New Jersey region has been a resilient one, thanks to the area's dense population and some of the highest average incomes in the nation. Net absorption has been positive for the past two years and through Spring 2023, essentially backfilling all of the space lost at the height of the pandemic. Net absorption YTD is 407K square feet, thus 2023 is already surpassing 2022 in terms of total leasing activity.

Malls continue to maintain the highest vacancy rate at over 11%, but this is on par with nationwide trends and the need to continually reimagine retail space use for today's shopper. The region's overall vacancy rate of 5.8% barely flinched during the pandemic and currently sits just slightly higher than the national average. As seen in Figure 8, Class B assets hold the largest percentage of the vacant space in the market. Even still, they remain over 93% occupied. Class A assets have a nearly 97% occupancy, indicating strong desire by tenants to hold on to premium space.

Overall retail rent growth has been solid, and rents have increased steadily over the last few years. Net rental rates for Class B and C assets, which make up the bulk of the region's retail inventory, have ticked up another $.20 PSF through Spring 2023. See Figure 7. However, rental rates for Class A assets have fallen about $.50 YTD to $21.05. This is likely because Class A buildings only make up 4% of the region's inventory, causing larger fluctuations in reported rents. Additionally, landlords pushed rents hard in these newer buildings after the pandemic, to $23.44 PSF in 2021. Despite this anomaly, strong overall absorption and a construction pipeline near zero should help retail fundamentals remain robust through the remainder of this year.

Figure 7: Net Asking Rates

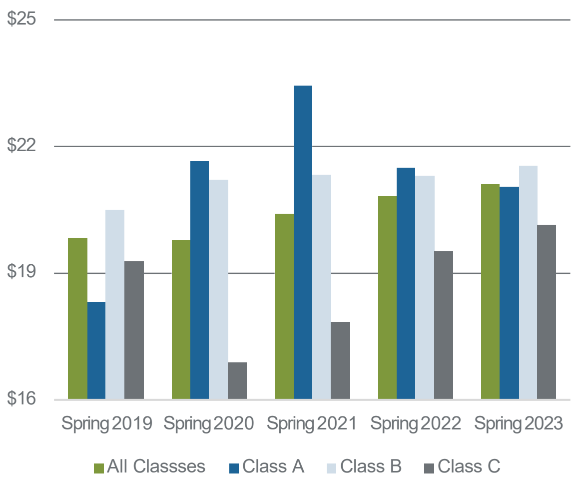


Figure 8: Percent of Direct Vacant Space by Asset Class

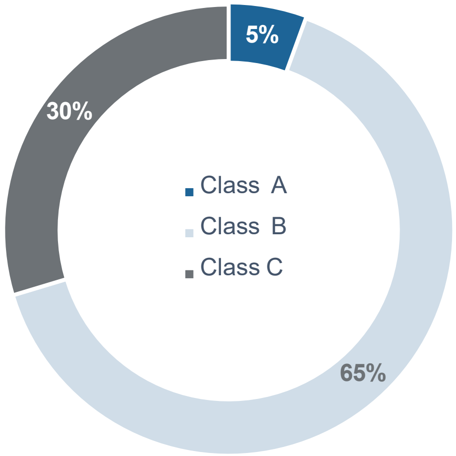


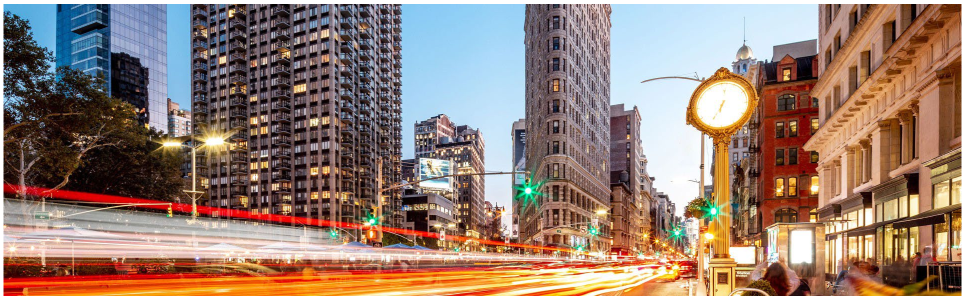
Figure 9: Notable Lease Transactions

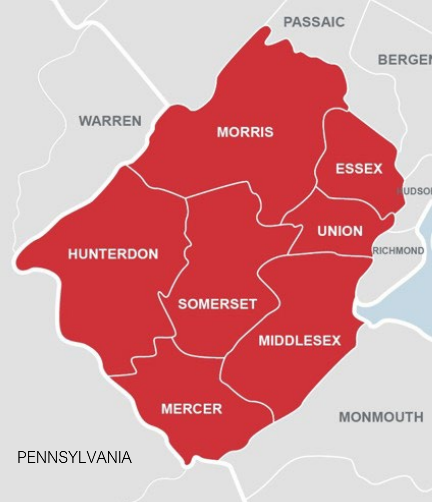
Tenant	SF	Location	Type
Target	99,000	West Orange Plaza, West Orange	New
Floor & Décor	76,361	Nassau Park Pavilion, West Windsor	New
Restoration Hardware Outlet	32,790	3265 US Highway 1, Lawrenceville	New
Macy's Furniture	44,215	350 US Highway 22 W, Springfield	New
Christmas Tree Shops	28,750	Somerset Shopping Center, Bridgewater	Renewal
Michael's	21,957	Cedar Knolls Plaza, Parsippany	New

CRE Report Sources: NAIDB analysis of CoStar data, Spring 2023

About NAI DiLeo-Bram & Co.

NAI DiLeo-Bram & Co. is a member of NAI Global. With over 375 offices and over 6,000 professionals globally, NAI Global completes in excess of $20 billion in commercial real estate transactions throughout the world each year. Leveraging the powerful support of the NAI Global Network, NAI DiLeo-Bram & Co. offers a full suite of commercial real estate services backed by over 85 years of local commercial real estate experience.





This report utilizes data related to the following New Jersey counties: Middlesex, Somerset, Union, Essex, Morris, Mercer, and Hunterdon