

Market Review

Northern/Central New Jersey

Fall 2022

Despite economic uncertainty, New Jersey's commercial real estate market continues attracting Investors and Occupiers



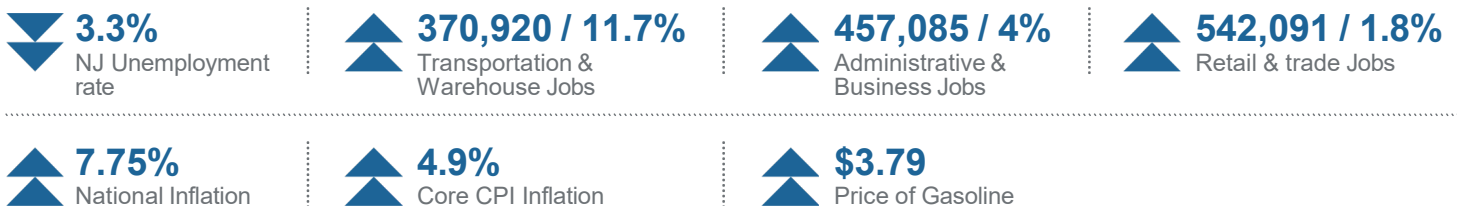
After a record setting 2021, the real estate market is softening as recession risks loom. Households and businesses continue to battle high inflation and rising interest rates, while real estate markets across the nation are down shifting from the blistering post-COVID reopening race to a more sustainable pace. Despite vacancy rates inching up and leasing velocity slowing, demand for space in New Jersey remains high. This is unique to the New Jersey market and highlights why despite a shaky economy and an inevitable slowdown looming - the sky is not falling.

Recovery along the east coast was robust with retail, tourism and back-to-work programs adding to the increased demand for space in the Garden State. Additionally, the federal and state government's recent investment of nearly \$550B in public infrastructure projects has peaked interested in the region as age old issues with commute times, roads and bridges are addressed.

As the seventh largest economy in the nation, New Jersey remains a central lifeline for goods and services. The region will continue to attract new players and is well poised to whether the uncertainty ahead.

- New Jersey unemployment rate (3.3%) continues to fall to historic lows, and remains lower than the national average (3.7%) which is trending up and expected to land far higher than current Federal Reserve projections of 4.1%
- Job recovery in New Jersey is extremely strong with the transportation and warehouse sector adding over 370,000 new jobs, while retail and administrative added over 1 million new positions.
- The tight labor market is playing a role in the persistent inflation, and the looming layoffs may be enough to return the ratio of vacant positions to unemployed workers to curb demand to put downward pressure on demand.

Key Economic Statistics



Arrows indicate year-over-year change. Source: NAIDB analysis of data from NJ Department of Labor, Bureau of Labor Statistics, Costar

Industrial Market

▲▲ **2.3%**
Direct Vacancy

▲▲ **\$12.73 PSF**
Net Asking Rate

▲▲ **1,562,538 SF**
Net Absorption

▼▼ **1,688,070 SF**
Under Construction

Source: NAIDB analysis of data from NJ Department of Labor, Bureau of Labor Statistics, Costar

Demand in New Jersey's industrial market remains strong as consumers continue their trend of online ordering and expectations of swift deliveries. Despite new inventory coming online this fall, rents continue to increase and surpass previous record highs. By the end of Fall 2022, net asking rents jumped a whopping 17.9% YoY landing at \$12.51 per sq. ft.(PSF), see Figure 1. While overall asking rents are increasing, Class A rents continue to defy the odds and topped out 14% higher YoY at \$13.94 PSF. Normally, we would anticipate a tempering in rents with the national economy fighting soaring inflation, but the northern New Jersey market is poised to defy the odds with its strong regional economy, high occupancy rates and decline in space under construction.

Since Fall of 2021, the market has expanded its total square footage by an additional 6.5M SF of new Class A product. Despite the additional space, there is a limited supply of Class A industrial properties as evidenced by a vacancy rate of 2.9% and net absorption totaling 6,535,315 SF.

New Jersey's robust industrial market will continue to grow with demand remaining high from logistics companies who support online delivery of goods in the area. These companies recognize the value of being close to densely populated areas, and the \$176B investment into roads, bridges, railways and other major projects. We anticipate future growth from big box retailers who provide goods to the region as well as Life Sciences and Biotechnology companies that were infused with capital to help address health issues across the nation and need to be close to research institutions. The demand for space will remain high with new players entering the market and signing new leases.

Figure 1: Net Asking Rates

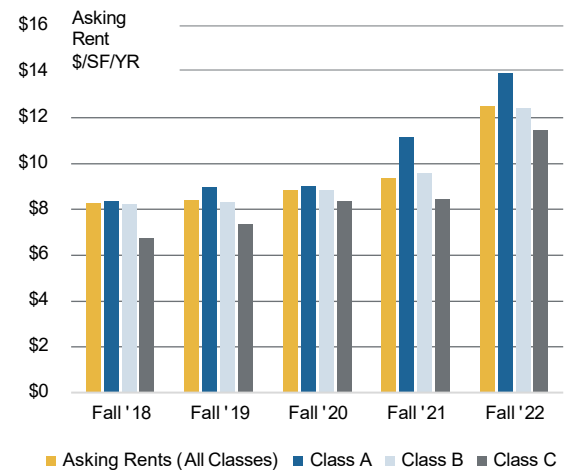
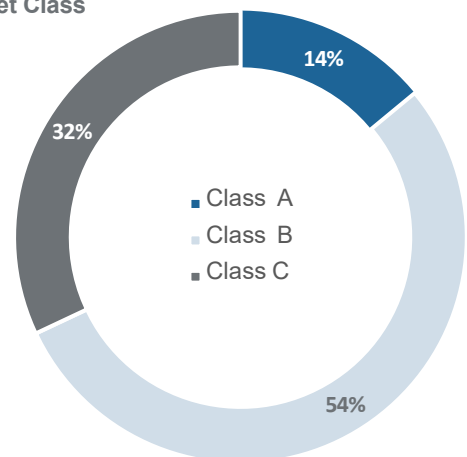


Figure 2: Percent of Direct Vacant Space by Asset Class



Source: NAIDB Research analysis of Costar data, Spring 2022.

Figure 3: Notable Lease Transactions

Tenant	SF	Location	Type
List Logistics	844,373	703 Bartley Chester Road, Flanders	Lease
Samsung	735,220	700 Linden Logistics Way, Linden	Lease
JW Fulfillment	152,175	230 Belmont Drive, Somerset	Lease
Contract Filling Inc	144,025	10 Cliffside Drive, Cedar Grove	Lease
Englert, Inc.	103,264	1100 Randolph Road, Somerset	Lease
Contract Filling Inc	144,025	10 Cliffside Drive, Rockaway	Lease

Source: NAIDB analysis of market activity, Fall 2022.

Office Market

13.9% Direct Vacancy	\$26.22 PSF Net Asking Rate	132,754 SF Net Absorption	1,933,441 SF Gross Absorption	0 SF Under Construction
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Source: NAIDB analysis of data from NJ Department of Labor, Bureau of Labor Statistics, Costar

As we settle into post pandemic life, the demand for office space remains high but is beginning to temper. Over the past year, the return-to-work initiatives drove up the demand for office space with nearly 30% more transactions taking place in the past 12 months. That said, the amount of office space needed continues to morph as companies try to balance the desire to be in-person with work-from-home options and high rental rates.

Downsizing and space givebacks are trends impacting the market and resulted in a steady, back-to-back fall in net absorption. By the end of Fall 2022, there was 1.027M SF of office space returned to the market, resulting in a 1.9% increase in vacancy rates from Spring 2022. However, there are some positive indicators, with no additional office space under construction, an uptick in new tenants entering the market, current infrastructure investments and strong gross absorption.

The demand for Class A office space remains resilient with over 2.5M SF of space absorbed in Fall '22 and over 4.76M SF since Fall 2021. Class B gross absorption is also impressive with 2.54M SF absorbed in 12 months, while Class C office space remains hard to find with a vacancy rate of only 5.6%.

Overall, vacancy rates are inching higher while rents remain strong, see Figure 4. Since Spring 2022, asking rents have increased another \$.96 to \$26.44 with demand stemming mainly from the technology, life sciences and healthcare sectors, see Figure 6.

Figure 4: Net Asking Rates

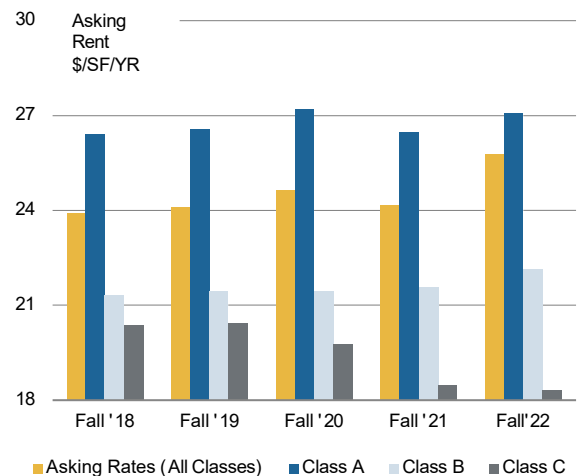
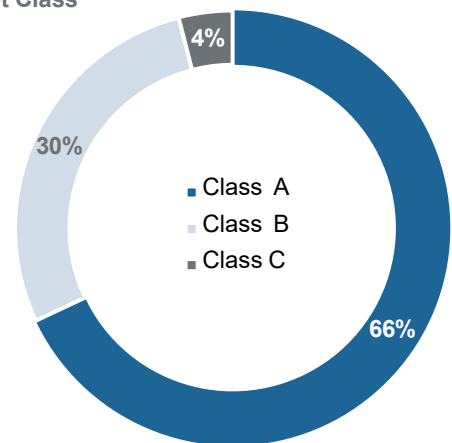


Figure 5: Percent of Direct Vacant Space by Asset Class



Source: NAIDB Research analysis of Costar data, Spring 2022.

Figure 6: Notable Lease Transactions

Tenant	SF	Location	Type
Avis Budget Group, Inc.	212,535	Parsippany Corporate Center, Parsippany	Renewal
PTC Therapeutics	174,914	Warren Corporate Center, Warren	Lease
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Morgan Stanley	116,578	340 Mount Kemble Avenue, Morristown	Lease
AT&T	116,499	Somerset Financial Center, Bedminster	Lease
AT&T	113,500	Somerset Financial Center, Bedminster	Lease

Source: NAIDB analysis of market activity, Spring 2022.

Retail Market

6.7%
Direct Vacancy

\$20.61 PSF
Net Asking Rate

-105,630SF
Net Absorption

0 SF
Under Construction

Source: NAIDB analysis of data from NJ Department of Labor, Bureau of Labor Statistics, Costar

Retail is a key piece of the New Jersey economy and is responsible for employing nearly 850,000 people and contributing \$45.5B to state GDP annually. While the industry remains strong, rents remain relatively stable, ending the quarter at \$20.61, down \$0.10 from Fall 2021. Figure 7 shows rents by asset class for greater comparison. Class A product continues to remain steady decreasing \$0.20 per sq. ft., ending the Fall at \$20.71. Meanwhile, Class B office space continues its four-year trend of rent increases, inching up an additional \$0.20 to \$22.47.

Overall direct vacancy continues to inch up ending Fall 2022 at a rate of 6.7%, an increase of 2.0% YoY with roughly 4.7M sq. ft. of combined Class A and Class B space available. Figure 8 shows the percentage of direct vacant space available by class and confirms that Class A accounts for only 12% of the total available space. On the flipside, Class B space remains consistently available and is tied to 58% of the total vacant space in the area. Notwithstanding the availability in the Class B Sector, there have been continuous hikes in rental rates landing Class B space nearly \$2.50 higher than Class A space.

Net absorption continues fluctuating and remains negative. Gross absorption is over 2.6M sf in 2022, indicating the market has healthy activity and tenants are likely seeking out new or different locations in the post-pandemic era. In Figure 9, some of the notable leasing activity from Fall 2022 is highlighted.

Despite high energy prices, rising interest rates and inflation, large amounts of capital remains available for transactions.

Figure 7: Net Asking Rates

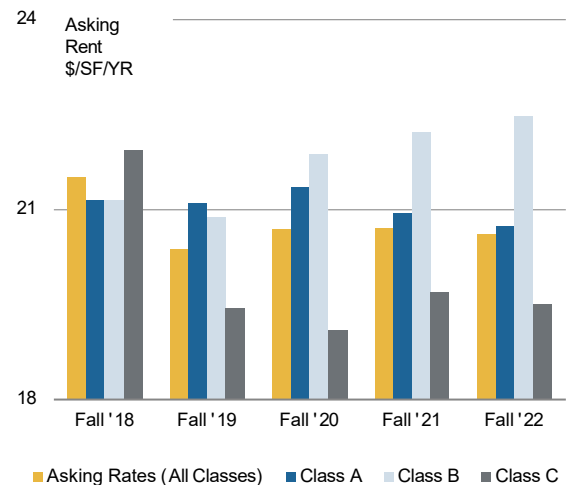
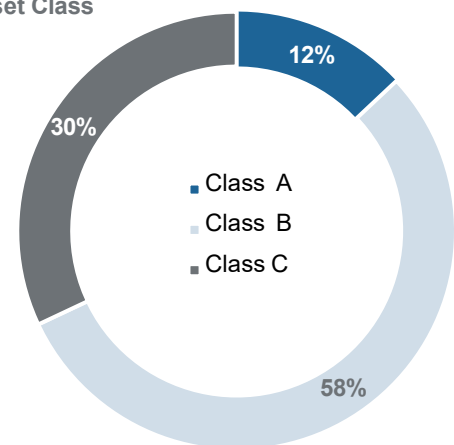


Figure 8: Percent of Direct Vacant Space by Asset Class



Source: NAIDB Research analysis of Costar data, Fall 2022.

Figure 9: Notable Lease Transactions

Tenant	SF	Location	Type
Macy's Furniture	44,215	350 US Highway 22 West, Springfield	New Lease
Marshalls	28,982	Blue Star Shopping Center, Watchung	Renewal
Tractor Supply Company	25,000	Sutton Plaza Shopping Center, Flanders	Renewal
Petco	17,906	Somerville Circle Shopping Center, Somerville	Renewal
Wren Kitchens	15,000	92-98 State Route 10 West, East Hanover	New Lease
2427 Furniture Corp	14,082	423 US Hwy 46, Fairfield	New Lease

Source: NAIDB analysis of market activity, Fall 2022.

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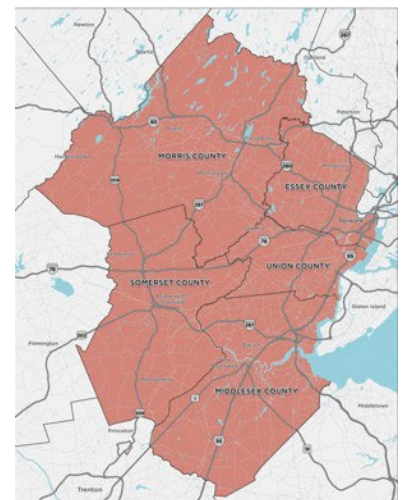
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This report utilizes data related to the following New Jersey counties: Middlesex, Somerset, Union, Essex and Morris

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