

Northern/Central New Jersey, Spring 2020 Market Review

COVID-19 Pandemic Continues to Define Market Activity



MARKET OVERVIEW

EMPLOYMENT

↑ NJ
Unemployment rate
15.3%

↑ Unemployment
Claims
83,326

Arrows indicate year-over-year change

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

The effects of the COVID-19 Pandemic and accompanying lockdown persists and there will be continual downward pressure on the market for some time. With non-essential employees confined to their homes since mid-March, recent market activity has been almost non-existent. Repricing of available space will likely be delayed until tenants are able to return to work safely and assess their needs against the market. Although some discussions of temporary rent relief occurred while tenants evaluated insurance options and loans through the recently passed CARES Act, more time is required to determine the level of activity businesses experience as the state and economy begin reopening. The Governor's executive order halted all non-essential construction projects on April 10th and resumed on May 18th. While social distancing, safety, and sanitation requirements will apply, expect construction projects to begin in earnest.

The unemployment rate is up from the end of 2019. As of the end of April 2020 (the most recent figures available), New Jersey shows a preliminary seasonally-adjusted unemployment rate of 15.3%. These figures will continue to climb as more data is released.

- **Approximately 83,000 people applied for unemployment benefits the first week of May, and over 1.1m have filed since the beginning of the pandemic, with 36m filing nationally in the same time frame**
- **eCommerce and third-party logistics companies paced the market as social distancing continues to bolster these businesses**
- **As a sign of the distress companies and the market are experiencing, there has been a 28.6% increase in available office sublease space year-over-year**
- **Retail sales fell a record 16.4% year-over-year, with the largest declines being in clothing and accessories sales, falling 89.3% year-over-year**

MARKET AT A GLANCE

Arrows indicate direction of year-over-year change

↓ Direct Vacancy
3.3%

↑ Net Asking Rate
\$8.65 PSF

↓ Net Absorption
-2,167,659 SF

↑ Under Construction
10,574,811 SF

INDUSTRIAL MARKET

As shown in Figure 1, average net asking rents hit an all-time high in Spring 2020, reaching \$8.65 per sq. ft. Overall asking rates have been trending higher over the last five years. Given the already high demand for this product and the expectation that this will not change in the near future, rents should continue to increase. Regardless of how successful reopening proves to be, inventory will remain tight for premium space.

Figure 2 shows that direct Class A product has the least availability. In fact, Class A product accounts for less than 20%, of all available space, another sign that rents will continue to rise. Industrial space remains an extremely tight market in New Jersey and this will continue to drive new construction as developers see the opportunity to bring high-quality space to market. While the shutdown suppressed market activity in terms of absorption, there is no denying that third-party logistics and eCommerce firms were the drivers of market activity, see Figure 3. Amazon alone accounted for over 1 million sq. ft. of leasing in the first five months of the year. It is fair to assume that these types of companies will continue to be active in the market enabling efficient distribution of products to consumers.

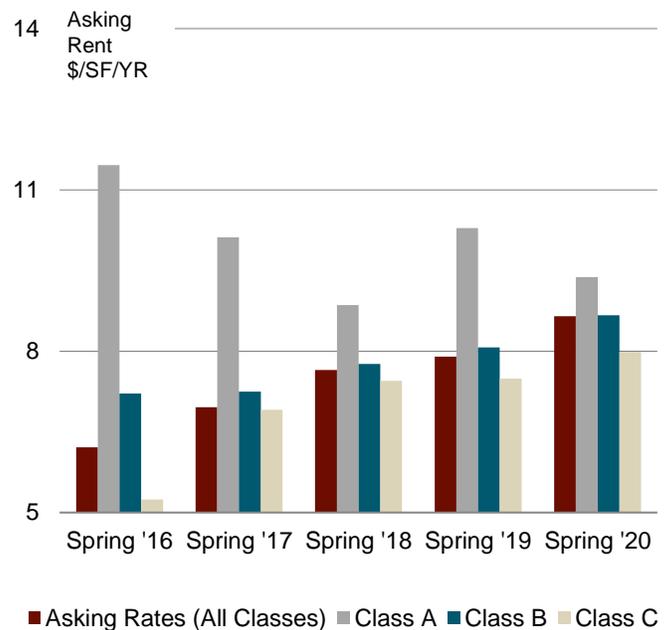
As states phase-in reopening, the drivers of the industrial market will grow. Regardless of having another shutdown from COVID-19, the new realities of working and life in the post-pandemic world assure industrial product will be highly sought-after.

Figure 3: Notable Lease Transactions

Tenant	Size (SF)	Location	Type
Amazon	661,741	429 Delancy Street, Newark	New Lease
Geodis Logistics	611,320	1 Costco Drive, Monroe	Renewal
US Elongistics	570,000	703 Bartley Chester Road, Flanders	New Lease
Amazon	386,296	1800 Lower Road, Linden	New Lease
Amware Logistics	238,000	1242 Cranbury South River Road, Cranbury	Expansion & Renewal
Topaz Lighting	190,000	130 Interstate Boulevard, Monroe	New Lease
Amazon	185,000	1 Paddock Street, Avenel	New Lease

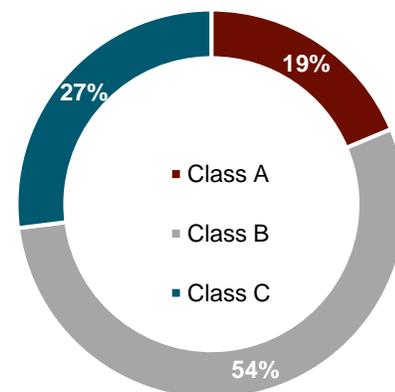
Source: NAIDB analysis of market activity, Spring 2020.

Figure 1: Net Asking Rates



Source: NAIDB analysis of Costar data, Spring 2020.

Figure 2: Percent of Direct Vacant Space by Asset Class



Source: NAIDB analysis of Costar data, Spring 2020.

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

MARKET AT A GLANCE

Arrows indicate direction of year-over-year change

↓ Direct Vacancy
12.8%

↑ Gross Lease Asking Rate
\$24.68 PSF

↓ Net Absorption
91,609 SF

↑ Under Construction
553,095 SF

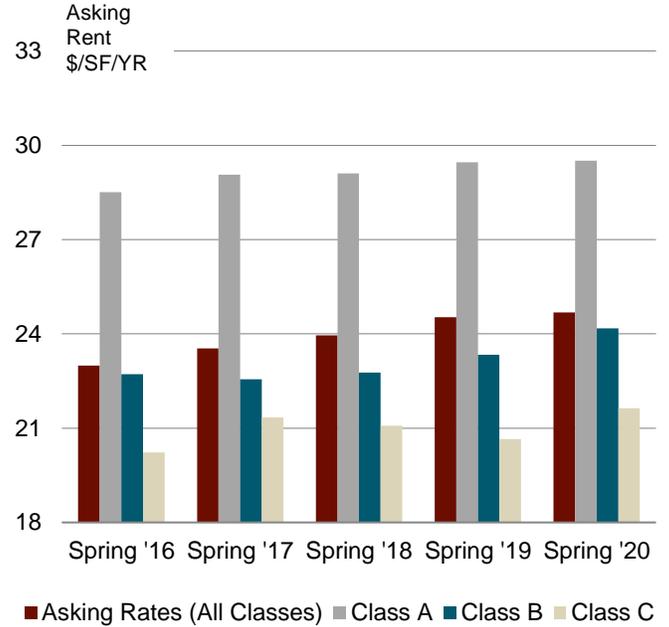
OFFICE MARKET

As shown in Figure 4, average gross asking rents displayed little growth year-over-year, ending Spring 2020 at \$24.68 per sq. ft., a \$0.15 increase. Class A rents were stagnant year-over-year at \$29.51, a \$0.05 increase. It is too early to tell if owners have started to reduce prices due to the pandemic, but Class A rents are down \$0.20 per sq. ft. from Fall 2019. If sublease space continues to become available, it may force owners to reduce prices on direct space to remain competitive. This would be a clear opportunity for occupiers.

The direct vacancy rate fell 190 basis points (bps) year-over-year, ending Spring 2020 at 12.8%, and is 20 bps lower than Fall 2019. Class A product experienced a 50 bps decrease year-over-year and held steady at 17% from Fall 2019. Interestingly, Class A product, available directly, has the greatest inventory, shown in Figure 5.

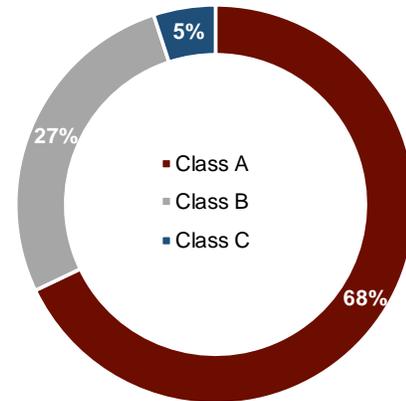
Occupiers continue to make decisions thoughtfully, taking their time on leasing decisions amid the pandemic, see Figure 6 for notable leases from Spring 2020. A great deal of volatility in the market throughout 2020 should be expected as the nation grapples with COVID-19. New Jersey will see its share of interest from companies looking to reduce their footprint in Manhattan as a result of the pandemic. However, a second shutdown due to a spike in active cases later in the year would further negatively impact the office sector.

Figure 4: Gross Asking Rates



Source: NAIDB analysis of Costar data, Spring 2020.

Figure 5: Percent of Direct Vacant Space by Asset Class



Source: NAIDB analysis of Costar data, Spring 2020.

Figure 6: Notable Lease Transactions

Tenant	Size (SF)	Location	Type
Hackensack Meridian Health	163,461	399 & 499 Thornall Street, Edison	New Lease
Huber + Suhner	65,441	40 Technology Drive, Warren	Lease
BNP Paribas	53,186	485 Route 1, Iselin	Renewal
EMC	50,862	184 Liberty Corener Raod, Warren	Renewal
Baker & Taylor	39,662	501 Route 22 West, Bridgewater	Sublease
Infosys	38,712	501 Route 22 West, Bridgewater	Sublease

Source: NAIDB analysis of market activity, Spring 2020.

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

MARKET AT A GLANCE

Arrows indicate direction of year-over-year change

↑ Direct Vacancy
4.4%

↓ Net Asking Rate
\$20.76 PSF

↓ Net Absorption
-33,759 SF

↓ Under Construction
625,482 SF

RETAIL MARKET

Average net asking rents declined year-over-year by \$0.47 per sq. ft., displayed in Figure 7. While some year-over-year growth across Class A product is encouraging, there is no denying that retail has been the hardest hit sector in the pandemic to date. Since many retailers are small businesses, they are not able to weather multiple months with near zero revenues. Unfortunately, the bleeding is not yet over and even with the reopening beginning, most plans have drastically reduced capacities and will continue to adversely affect all retailers.

Figure 8 shows that Class A product has the smallest share of available direct space, at 9%. It is safe to expect more space to hit the market in the near future as the impact of the shutdown continues to be felt. The market for retail has come to a near-halt as nearly all notable leases in Figure 9 were signed early in the year. Most tenants in the market have not been able to conduct business, and therefore have not been looking for space.

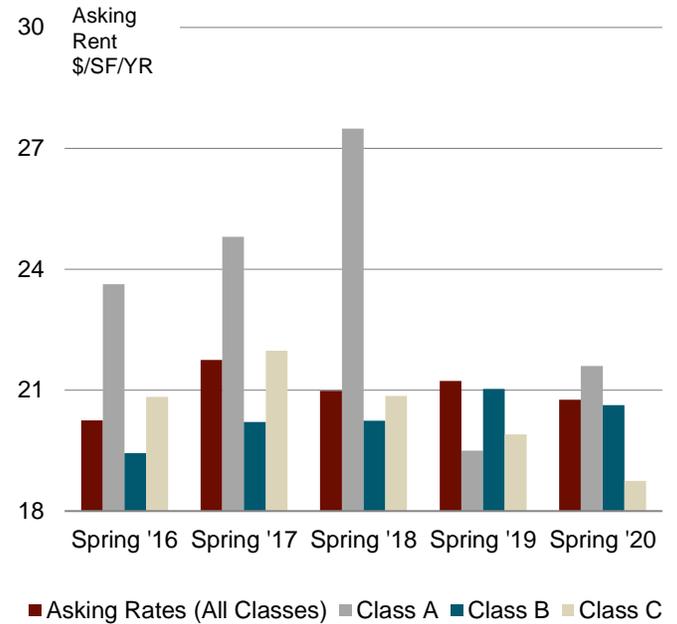
Retail will make it through this storm but is likely to be fundamentally changed from pre-pandemic times. Consumers have come to rely on services like curb side pickup and the mixture of convenience with efficiency will likely keep demand for this service high. Retailers that have embraced technology through the pandemic have fared better and we will continue to see technology play a major role in the amount of space leased and the way occupiers design and utilize their locations.

Figure 9: Notable Lease Transactions

Tenant	Size (SF)	Location	Type
Planet Fitness	32,000	374 Main St, Bellville	New Lease
Old Navy	12,500	3440 US Highway 46, Parsippany	New Lease
Dollar Tree	12,130	275 Rte 10 E, Succasunna	New Lease
Walgreens	11,000	1483 Rte 23 S, Kinnelon	New Lease
Kids Empire	10,995	1511 US Highway 22, Watchung	New Lease

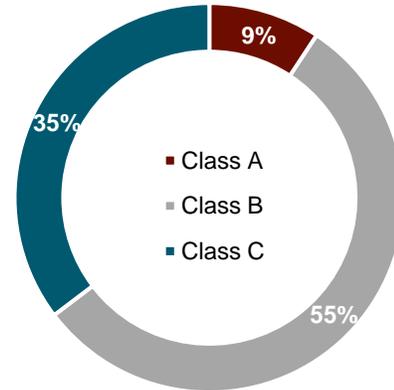
Source: NAIDB analysis of market activity, Spring 2020.

Figure 7: Net Asking Rates



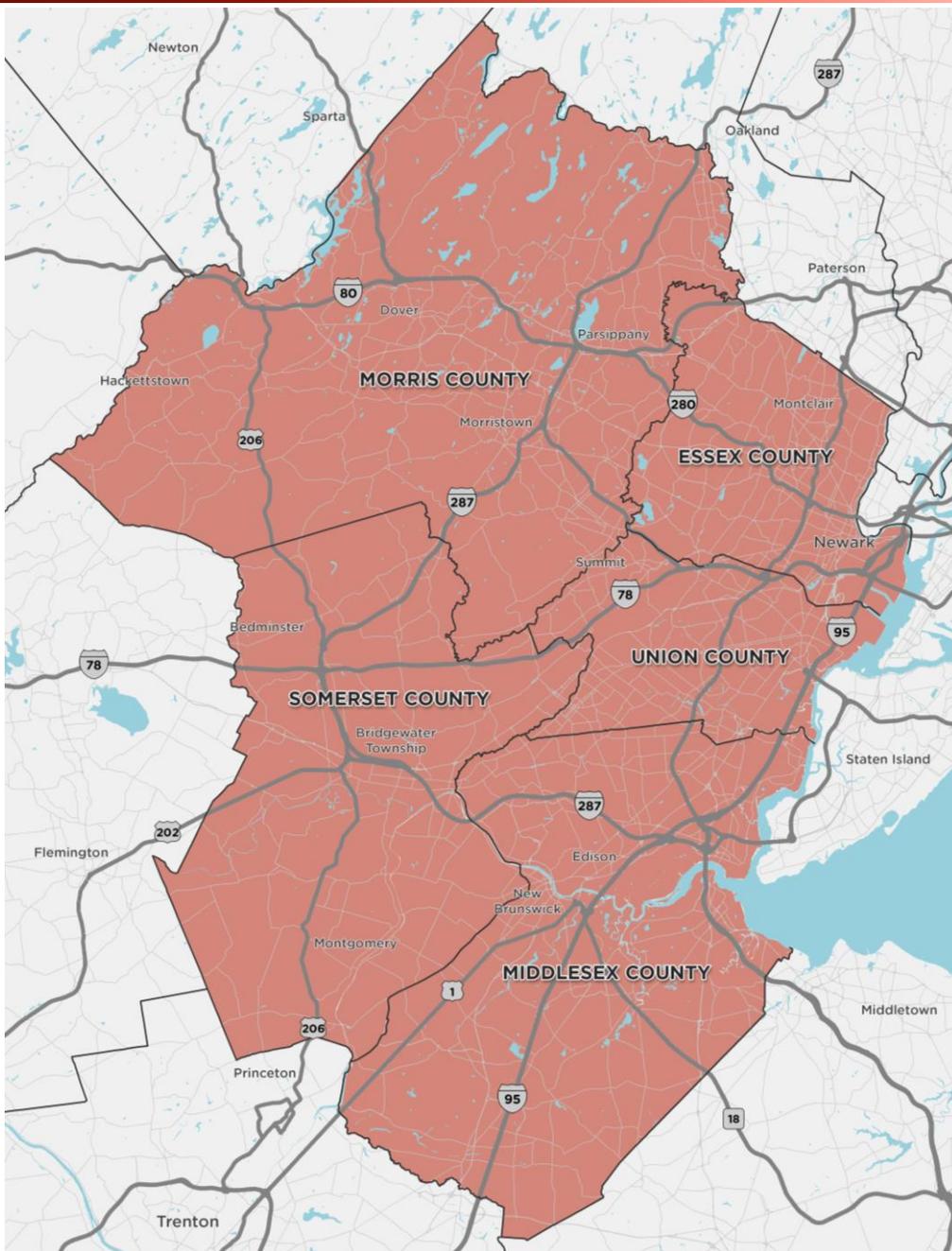
Source: NAIDB analysis of Costar data, Spring 2020.

Figure 8: Percent of Direct Vacant Space by Asset Class



Source: NAIDB analysis of Costar data, Spring 2020.

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



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

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