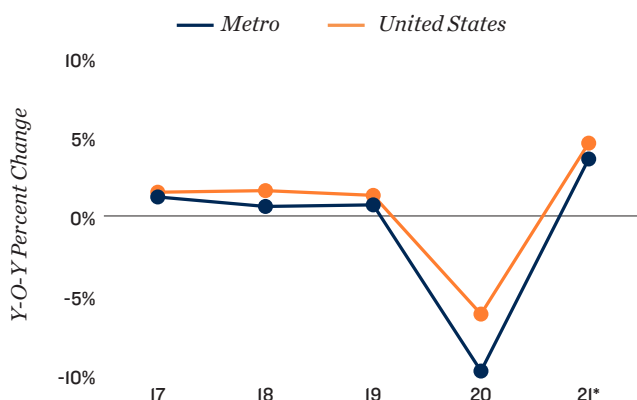


## The Region's Offices Prepare to Turn the Corner as Vacant Arrivals Add Competition for Tenants

**Pressure on offices starting to abate.** The pandemic-induced shift to remote work among many office-based roles ended a six-year streak of declining vacancy in 2020. Over the past 15 months ending in June, the amount of vacant office space in the market increased by nearly 6.4 million square feet, lifting the vacancy rate by 340 basis points to 18 percent. Uncertainty regarding the duration and severity of the health crisis has prompted some companies to reduce footprints or pause expansions. Other firms are continuing to occupy space, however. Pharmacology company Eisai and insurer AIG both took up more than 200,000 square feet apiece this year. While move-outs are anticipated to exceed move-ins this year, the recent positive uptick in leasing activity puts the market on track to potentially stabilize in 2022.

**Non-medical deliveries complicate short-term outlook.** Supply pressure from an above-average level of office completions this year will be compounded by the current subdued leasing environment. Two Hudson Waterfront deliveries, each over 100,000 square feet in size, had yet to lease more than 15 percent of their space as of September. This will contribute to the county's already elevated vacancy, which climbed past 20 percent in June. The region's medical office properties under development are anticipated to lease up more quickly. About 40 percent of this year's pipeline is comprised of such facilities, with arrivals slated for Morris, Bergen and Union counties.

### Employment Trends



\* Forecast  
Sources: BLS; CoStar Group, Inc.

## Office 2021 Outlook



70,000

JOBS

will be created

### EMPLOYMENT:

The addition of over 30,000 jobs within just June and July will help propel employment growth for all of 2021 to 3.6 percent. An August unemployment rate of 8.0 percent indicates slack left in the labor market to support future hiring.



700,000

SQ. FT.

will be completed

### CONSTRUCTION:

Office completions will climb to a six-year high in 2021, although the scheduled deliveries will only expand local inventory by 0.4 percent. Nationally, the supply of office space is set to grow by 1.2 percent this year.



170

BASIS POINT

increase in vacancy

### VACANCY:

The amount of occupied space is projected to fall for the second consecutive year in 2021, lifting the region's vacancy rate by nearly the same margin as in 2020. The metric will climb to 18.5 percent this year, matching the record high from 2013.



0.7%

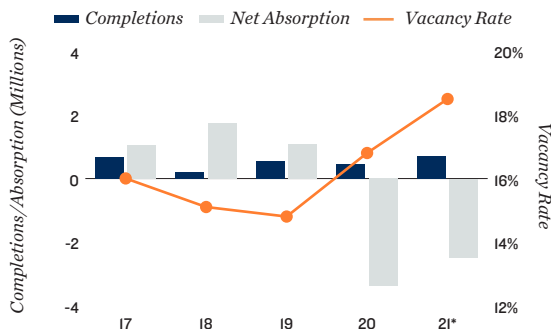
DECREASE

in asking rent

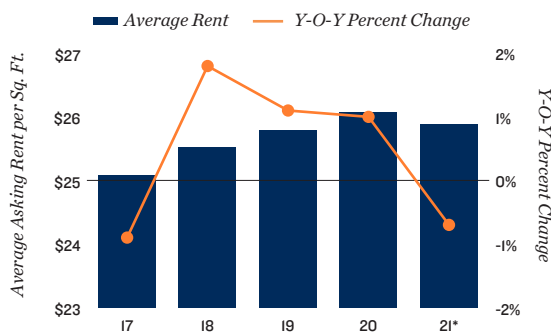
### RENT:

More space available for lease or sublease will weigh on asking rents this year. The marketwide average rate will dip down to \$25.88 per square foot. Rates had inched past \$26 per square foot in 2020 as some high-end floor plans were vacated.

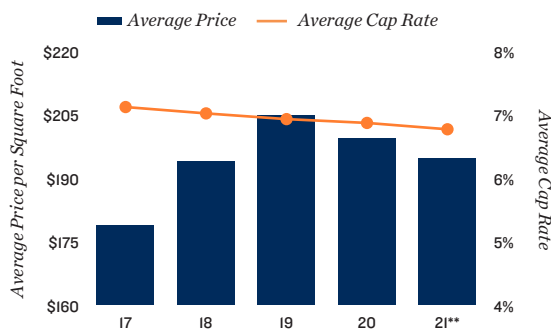
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

## 2Q21 – 12-Month Period

### CONSTRUCTION

675,000 sq. ft. completed

- The pace of development picked up substantially over the 12-month period ended in June. During the previous annual span, less than 100,000 square feet of office space was delivered.
- The most office space opened in Bergen County, driven primarily by the 360,000-square-foot LG Electronics campus finalized in late 2020.

### VACANCY

260 basis point increase in vacancy Y-O-Y

- Vacancy has continued to climb since the onset of the health crisis, with the marketwide rate reaching 18.0 percent at the end of the second quarter. Availability has not been this high since 2015.
- Both Morris and Hudson counties recorded vacancy above 20 percent in June. Essex was the only county to post an annual vacancy decline.

### RENT

No change in the average asking rent Y-O-Y

- The average asking rent for office space has held about steady since the onset of the pandemic, hovering around \$26.22 per square foot.
- Class A and Class B/C offices are exhibiting opposite rent performance trends. The average Class A rent fell 2.3 percent annually in June while the Class B/C mean rose 2.7 percent.

### Investment Highlights

- About 10 percent fewer properties changed hands over the past 12 months ended in June relative to prior year as some office investors maintained a wait-and-see approach. The challenges facing the sector have contributed to a 4 percent decline in the average sale price to \$195 per square foot, about on par with the 2018 average.
- Investors have focused more on well-tenanted, higher-tier assets in recent months. Class C buildings comprised about 20 percent of trades over the past four quarters, down from 30 percent two years prior. Across classes, cap rates ranged from low-6 percent to above 8 percent, producing a marketwide mean of 6.8 percent.
- Investment activity picked up over the last year in Morris County, led by a portfolio sale in the Parsippany area. Lower entry costs compared with other parts of the region may be contributing to the buyer interest.
- Transaction velocity for medical offices was consistent on an annual basis, with some assets changing hands with cap rates over 8 percent.