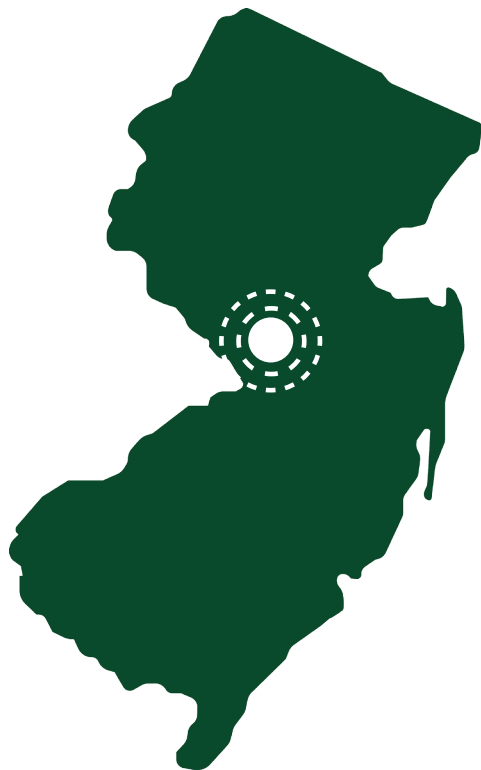


# PRINCETON OFFICE MARKET REPORT

THE TRUSTED SOURCE FOR COMMERCIAL REAL ESTATE NEWS



INSIDE:

- ▶ "DENSIFICATION"
- ▶ BUILDING UPGRADES
- ▶ MILLENIALS
- ▶ NEW LANDLORD IN MARKET
- ▶ INCENTIVES

NEW THIS YEAR:

- ▶ STATE OF THE STATE - JOBS & ECONOMY
- ▶ 2015 PREDICTIONS - HOW DID WE DO?



PRINCETON  
PROPERTY  
PARTNERS

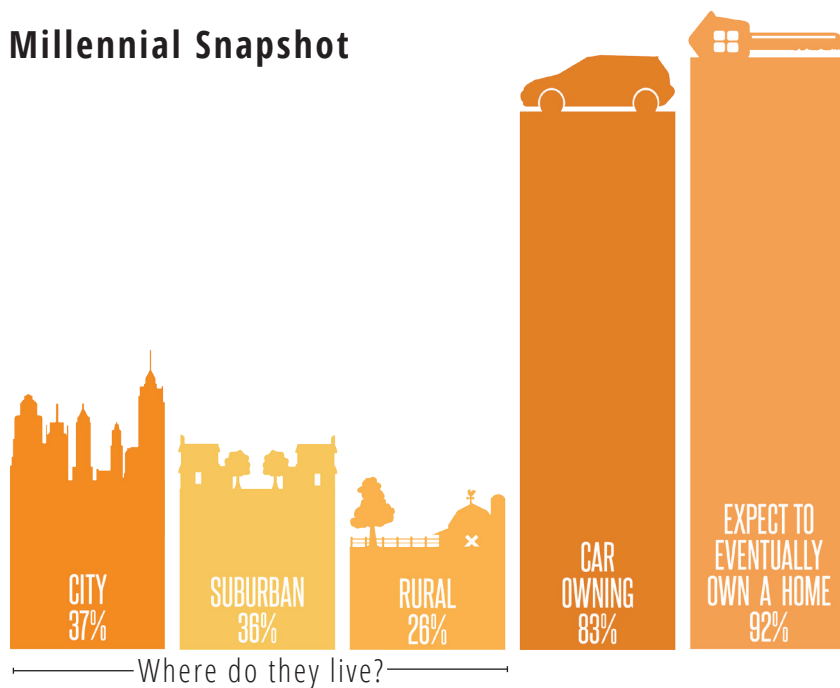
# MARKET TRENDS

**QUALITY SPACE:** 64% of Princeton Office tenants occupy Class A space. Due to limited new construction, the building stock is getting older. The average age of a Class A building is now 20 years and some of the older buildings need to be upgraded. The most demanding tenants will drive demand for new Build-to-Suit space which can be tailored to their needs.

**LESS SPACE PER EMPLOYEE:** “Densification” is the new buzz-word. Clients are relocating to new space in the same square footage but with 20-30% more seats. As offices shrink, more companies are building space with glass wall systems to make the space feel larger and to increase the amount of natural light in the space.

**LANDLORDS UPGRADING OLDER BUILDINGS:** Tenants are looking for buildings with more quality public spaces as they work in tighter space. Landlords are responding to this trend. The owners of Carnegie Center and Princeton Pike Corporate Center have spent tens of millions to retrofit lobbies, construct new cafes and build state-of-the-art fitness facilities. These owners realize that they must upgrade their older buildings in order to command the highest rental rates.

## Millennial Snapshot

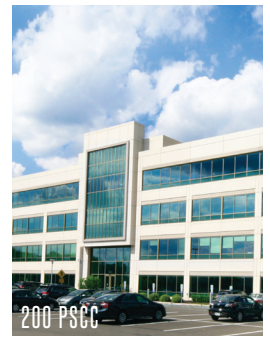
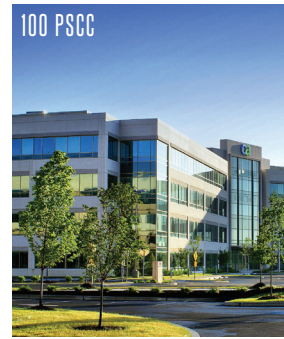


**MEGA TRENDS:** Demographic trends have a significant influence on commercial real estate markets. The Millennial generation (current age 20-37) includes 78.6 million Americans. Larger than the “Baby Boom” generation, the needs and desires of this demographic are influencing real estate markets in many ways.

In the past decade, some demographers have predicated the demise of the suburbs as many people in the Millennial generation have chosen to live in cities. Respected researcher M. Leanne Lachman reports that the Millennials have chosen to marry later, postpone having children and are carrying more student debt than prior generations. While in their younger years, Millennials have the freedom to enjoy city life. When they start their families, Leanne reports that many city-dwelling Millennials intend to move back to the suburbs and buy a home.

Companies want to be located in places where talented employees reside. If Millennials are all moving to the cities, the commercial real estate market in Princeton would suffer a dramatic negative shift. However, if the Millennial generation is already located in Princeton in big numbers and more will be moving here as they have children, the Princeton real estate market will enjoy significantly better growth and commercial and residential property values will be higher.

**CHANGING OWNERSHIP:** Two significant property sales were closed in 2015. Princeton South Corporate Center and Princeton Pike Corporate Center both sold for record-high prices to a NY/ NJ investment group. The sellers were a Rubenstein Partners fund and Prism/Angelo Gordon (respectively) who each achieved a significant profit on their investment. The former owners were “value” buyers that bought the properties and increased the value by leasing and/or renovating buildings. The new owners are hoping for tightening supply conditions so they can renew tenants and fill empty space at much higher rental rates.



100 & 200 PRINCETON SOUTH CORPORATE CENTER, EWING, NJ BUILT: 2007 & 2008 TOTAL SF: 267,000 BUILDINGS: 2  
CORPORATE NEIGHBORS: Church & Dwight, FMC, CA, Philadelphia Insurance, Berkley Insurance



PRINCETON PIKE CORPORATE CENTER, LAWRENCEVILLE, NJ BUILT: 1984 - 2007 TOTAL SF: 800,000 BUILDINGS: 8  
CORPORATE NEIGHBORS: Bristol Myers Squibb, Stark & Stark, Fox Rothschild, GS1, Eckert Seamans

*“We are starting to see a trend of companies coming into the Princeton Market from Bucks County with Grow NJ dollars in their pockets,” says Mercer Oak President Sab Russo. One client leased 11,600 SF and obtained an award that will pay for over 50% of their rental expense. “Tenants can lease space in Bucks for \$30/SF or here in Princeton for the equivalent of \$15/SF.”*

**INCENTIVES DRIVING DEALS:** The Grow New Jersey program was enacted in 2012 to spur job growth in the state. In the past 3 years, 13 deals were done in the Princeton Market with companies that were awarded \$120 million of Grow NJ tax credits. Grow NJ deals represent approximately 43% of the total market activity. For tenants coming from PA, the economic value is double the amount that would be awarded to a tenant that moves within NJ.



## HOW IS NEW JERSEY DOING?



### SURGE IN NEW JOBS:

**55,000**  
new jobs created in 2015  
(through Nov.)

**48,000**  
new jobs created since August

### HISTORIC HIGH:

4.3 million people employed  
All-time high for NJ

### UNEMPLOYMENT DROPPED:

1 point to 5.3%  
(Dec 14 - Nov 15)

**Major Growth Industries:** Health Science, Construction, Professional & Business Services

**Noted Economist Joel Naroff:** "The unemployment rate [in NJ] should not only drop below 5% [in 2016], but by the end of the year be approximately 4.5%". And "housing price increases could accelerate to about 5% by year's end".

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## IN OUR 2015 REPORT, WE PREDICTED:

### 2015 Predictions:

1. Supply constraints in some submarkets
2. Growth in "FIRE" Industries
3. Increasing Rental Rates in select submarkets
4. Investors will Purchase Major Office Properties
5. "Break-Out" Year

### Outcome:

- Not Yet
- Yes
- Qualified Yes
- Yes
- Not Yet

### What We Missed:

1. Significant drop in leasing on Route One - 2<sup>nd</sup> Half of 2015
2. Large increase in leasing in Turnpike Corridor (high-tech, lab space)



# MACRO ECONOMICS

As of this writing, the Chinese stock market has infused equity markets worldwide with caution. This contrasts with significant job growth of 292,000 in December 2015, which capped off a total of 2.65 million new jobs for the year. With a strong dollar and weak growth in Europe and Asia, exports and manufacturing are down. However 90% of the new jobs in 2015 were in service industries, which typically absorb office space.

## ECONOMIC HEAD WINDS

Higher interest rates • Manufacturing weak  
Lower growth abroad • Business investment down



## ECONOMIC TAIL WINDS

Lower energy/commodity prices • Election year stimulus  
Strong jobs growth momentum • Housing market stronger

**2016 PREDICTIONS:** Uneven economic growth will continue in 2016. Fortunately, the US is less dependent on international trade than many other top economies, so we should be less susceptible to the negative impact that China will have on economic growth worldwide. Improvements in the housing market and strong job growth should continue to drive the economy.

### MAJOR DEALS 2015

TENANT	BUILDING	SPACE (SF)
Solvay	504 Carnegie Center	112,000
Oncobiologics	9 Cedar Brook Drive	102,000
Bristol-Myers Squibb	350 Carter Road	77,000
Taiho Pharma	101 Carnegie Center	60,000
Albridge	1800 Merrill Lynch Drive	44,000
Black Rock	One University Square	35,000
Centlar	370 Scotch Road	32,000
WithumSmith+Brown	506 Carnegie Center	29,000
Dodge (McGraw Hill)	300 American Metro Center	28,000

### LARGE BLOCKS AVAILABLE CLASS A SPACE

BUILDING	AVAILABLE SPACE (SF)	ASKING RATE/SF	DATE AVAILABLE
777 Scudders Mill Road	600,000	\$30.00	2016-2017
1700-1800 Merrill Lynch Drive	250,000	\$34.00	Immediate
100 Nassau Park Boulevard	130,000	\$29.00	4th Q 2016
510 Carnegie Center*	74,000	Negotiable	Immediate
400 Alexander Park	72,000	\$32.00	Immediate
500 College Road	69,000	\$26.50	Immediate
29 Thanet Circle*	50,000	Negotiable	Immediate

(As of 12/31/15)

\*Sublet space

# PRINCETON OFFICE MARKET

**FOR THE SECOND HALF OF 2015, LEASING ACTIVITY WAS DOWN SIGNIFICANTLY.** Since the Princeton Area is one of the strongest job “engines” in NJ, and with a surge of 48,000 jobs in NJ in the second half of 2015, this doesn’t make sense. So, we dug deeper and found that growth has spread in the region beyond the Route One Corridor to the Turnpike Hi-Tech Corridor. In the second half of 2015, 202,000 SF was leased in the Turnpike Corridor, the strongest level of activity in this submarket ever. The majority of the space leased in the turnpike corridor was lab space for cutting-edge biotech companies.

BMS - PLAINSBORO



BMS - NASSAU PARK



BMS - LAWRENCE - UNDER CONSTRUCTION



**AVAILABLE SPACE SURGE:** With the impending move by Bristol-Myers Squibb out of 730,000 SF into their new 650,000 SF campus in Lawrence, available space has surged by over 955,000 SF, increasing the class A vacancy rate from 10.5% in June to 19.7% now. This is the sharpest increase since 1999 (the increase in 1999 was due to the completion of over 1.58 msf of newly constructed space).

The buildings that Bristol-Myers Squibb is vacating are 25-30 years old and, for many, are not ideally located. So, as vacant spaces in the more desirable buildings lease up, tenants will have to decide whether they can be flexible to negotiate a better deal or pay more but be in a custom-crafted new building built to their specifications.



Before the Bristol-Myers Squibb space came onto the market, there was pricing pressure and, in some places, rates were moving up. Now, with the surge in vacancy and with dropping rental rates in nearby Bucks County, PA, the Princeton Office Market remains a Tenant's Market.

Absorption, the net increase (or decrease) in occupied space, has dropped into negative territory in the second half of 2015. With Bristol-Myers Squibb's occupancy dropping by 80,000 SF, and as other tenants/occupants "densify", it takes a much higher level of activity to translate into positive net absorption.



**MARKET SUMMARY:** In 2015, activity in the market has broadened to include a wider geography. More high tech/lab space is being leased. Leasing activity in the core Route One corridor market is down. Several large vacancies have hit the market and the class A vacancy rate is now the highest since 1993, although the majority of the space is not in the most desirable location.

We expect that the U.S. economy will continue to grow slowly and that the extremely well-educated workforce in Princeton will expand proportionately. The tight supply conditions that we had been predicting will not be present in the next year except in limited niches in the market. The elusive "Landlord's Market" has not manifested itself and will likely not be present for some time to come.

**TENANTS WILL CONTINUE TO HAVE SIGNIFICANT LEVERAGE AS THE OFFICE MARKET IS RESHAPED BY DEMOGRAPHIC TRENDS, INVESTMENT ACTIVITY AND ECONOMIC HEADWINDS.**



## LOOKING FOR OFFICE SPACE?

**THE EASIEST WAY  
TO FIND YOUR NEW OFFICE**

Browse the Princeton Office Market  
**WWW.MARKETOUR.INFO**

## PRINCETON FOCUSED... VERTICALLY INTEGRATED.



**PRINCETON  
PROPERTY  
PARTNERS**

### **PRINCETON PROPERTY PARTNERS**

**609.493.2210**

**WWW.PPP-US.COM**

Princeton Property Partners (PPP) develops and manages real estate projects for our clients and our own account.



### **MERCER OAK REALTY**

**609.452.0200**

**WWW.MERCEROAK.COM**

Mercer Oak Realty, LLC boasts over 100 years collective commercial real estate experience in the Princeton market. Mercer Oak provides a sophisticated understanding of the Princeton commercial real estate market to landlords, tenants and investors.



**PRINCETON  
PROPERTY  
MANAGEMENT**

### **PRINCETON PROPERTY MANAGEMENT**

**609.493.2210**

**WWW.PPP-US.COM**

Princeton Property Management (PPM) offers project and construction management services to tenants and landlords.

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