

# PRINCETON OFFICE MARKET REPORT

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VOLUME 28 {Q1 2014}



SIGNIFICANT  
DEMAND FOR  
CLASS A SPACE  
IN CENTRAL  
ROUTE ONE  
MARKET

**UNEMPLOYMENT**  
SIGNIFICANTLY LOWER THAN IN OTHER  
COMPARABLE AREAS... {P2}

**CLASS A  
VACANCY  
RATE 11.9%** RENTAL RATES FOR CLASS A  
SPACE CURRENTLY AVERAGE  
\$31/SF. SAME RATE AS 13  
YEARS AGO.

**ONLY TWO SPACES  
WHERE A 100K SF  
TENANT COULD  
FIND NEW HOME** {P2}

AT THE CURRENT RATE OF ABSORPTION, WE  
HAVE A 4 YEAR SUPPLY {P3} APPROACHING A  
LEANER INVENTORY - UPWARD PRESSURE ON  
CLASS A RENTAL RATES.

**MAJOR NEW LEASES - 2013** {P3}



THE PRINCETON REGION IS UNIQUE. UNEMPLOYMENT IS SIGNIFICANTLY LOWER THAN IN OTHER COMPARABLE AREAS.

<b>AREA</b>	<b>UNEMPLOYMENT RATE</b>
New York City	8.9%
New Jersey	8.4%
USA	7.3%
	<b>Mercer County* 5.3%</b>
	<small>*Includes Trenton (23% of Mercer County population)</small>

APPROXIMATELY 1/3 OF ALL CORPORATE SPACE IS OWNER-OCCUPIED. THIS IS A VERY HIGH PROPORTION COMPARED TO OTHER SUBURBAN MARKETS.

<b>OWNER</b>
Corporate-Owned
Investor-Owned
<b>TOTAL</b>

<b>SPACE</b>
12M sf
24M sf
<b>36M sf</b>

APPROXIMATELY 200,000 people work in these buildings. A 2% growth rate would mean 4,000 extra jobs, which translates into an additional 1 million sf. This is the typical rate of "absorption" of office space in the Princeton market over the past 20 years. The vast majority of absorption is in Class A space (2/3s). CLASS A VACANCY RATE IS CURRENTLY 11.9%. FROM 2008-2013, THE CLASS A VACANCY RATE AVERAGED 11.3%.

Due to the recession, only 1.5 million square feet was absorbed in the past 6 years, an average of 250,000 sf/ yr. This is lower than the typical absorption rate in Princeton, but far higher than the growth rate in NJ and the US. Almost all of this space was new construction/ rehab space.

**DIRECT AVAILABLE SPACE**

453K sf  
330K sf  
226K sf

**1,009K sf TOTAL**

**PERCENTAGE**

45%  
33%  
22%

**SUBMARKET**

Forrestal (North)  
Carnegie (Central)  
I-95 (South)

In addition, there is 177,000 sf of sublet space available. Significant pockets of vacancy exist in the Route One North market, especially in Class B buildings. However, there is a dearth of large spaces.

## MAJOR NEW LEASES - 2013

	TENANT	SPACE	SUBMARKET
<b>A</b> <b>CLASS</b>	Otsuka	79K sf	Central
	Berlitz	76K sf	Central
	Hill Wallack	44K sf	Central
	Heartland	27K sf	Central
	Wells Fargo	23K sf	Central
	Archer & Greiner	22K sf	Central

There has been significant demand for Class A space in the Central Route One market. Almost all of these tenants expanded in the same submarket where they had been previously located.

At the current rate of absorption, we have a 4 year supply of Class A space. Should there be an uptick in growth to a more normal pace, the available space would be absorbed much faster. As we approach a leaner inventory, there will be upward pressure on Class A rental rates.

RENTAL RATES FOR CLASS A SPACE CURRENTLY AVERAGE \$31/SF. THIS IS THE SAME RATE AS 13 YEARS AGO. **SINCE 2001, INFLATION HAS INCREASED PRICES BY 31.6%.** Property taxes have gone up by at least that amount. Commercial real estate investors have been able to continue to profit from deals at compressed net rental rates because a significant portion of their cost structure (the cost of debt) has been pushed down by the Fed. For sure, inflation is headed up and interest rates have no direction to go but up. Rental rates will increase also.

New construction will be the predominant means of satisfying corporate growth in the Princeton market over the next 5 years. THE AVERAGE BUILDING IN PRINCETON IS 24 YEARS OLD. These buildings were built when energy was much less expensive, when there was limited tele/data infrastructure and when interior spaces were configured very differently.

MANY COMPANIES ARE LOOKING AT THE HEALTH AND WELFARE OF THEIR EMPLOYEES AS A WAY **TO ATTRACT AND MAINTAIN THE BEST AND BRIGHTEST WORKFORCE.** New building design techniques employ green and health-oriented strategies. Since employee costs are typically 85% of an office tenant's cost structure and real estate is typically 10%, a 1% increase in productivity can justify a significant investment in real estate. Several companies have recently transformed their work environments. WE ANTICIPATE THAT THIS TREND WILL ACCELERATE AS THE ECONOMIC PICTURE IN **PRINCETON CONTINUES TO BRIGHTEN.**

## 2014 FORECAST



SAB: RENTAL RATES WILL MOVE UP.



AUBREY: NEW CONSTRUCTION IS COMING.



HANS: GREEN = PRODUCTIVE WORKSPACE. OLD/INEFFICIENT BUILDINGS WILL BE REPLACED.

Mercer Oak Realty, LLC boasts over 90 years collective commercial real estate knowledge in the Princeton market. Mercer Oak Realty was formed to provide an unparalleled and sophisticated understanding of the Princeton commercial real estate market to landlords, tenants and investors.

Mercer Oak Realty currently represents over 3 million square feet of existing and proposed office space and tenant requirements. Mercer Oak Realty helps clients reach their company's goals through sophisticated and intelligent real estate decision making.

Princeton Property Partners (PPP) offers investment and development in an urban and suburban future. Projects hat look beyond construction logistics to the value created in integrated and sustainable spaces with a vision that transforms real estate holdings into actively producing assets. We partner with investors in college towns, developing mixed use integrated projects.

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