

# Forecast 2021



New Jersey

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# New Jersey



## Executive Summary

- New Jersey may capitalize on companies migrating out of New York City due to lower occupancy cost, health and safety concerns, and closer proximity to its workforce.
- The pandemic has changed the office market as occupiers look to modify their footprint and become more open to their employees working remotely.
- The pandemic has increased the demand for warehouse, manufacturing and cold storage, further compressing an already historically tight market.
- The entire state legislature and the governor are up for election in November of 2021, which has the potential to greatly affect users and owners alike.

**2020 has created some shifts in both the office and industrial markets that will last beyond 2021. These include a renewed importance on employee health, an acceptance of working remotely, embracing of telecommunication technology, a further acceleration of e-commerce and blurring of the lines between retail and logistics. The location of New Jersey as an industrial hub as well as a suburb of New York City has put it at the focal point of all of these changes.**

The New Jersey economy, like the rest of the country, has taken a hit as a result of COVID-19, but over the past quarter, it has been on a slow path to recovery. New Jersey has seen its unemployment rate decrease over the past few months and has regained more than half of the jobs that it had lost as a result of the pandemic.

Earlier this year the State passed its 2021 fiscal budget, which included

a few notable items and was set to \$32.7 billion for the nine months from October 2020 until June 2021. The first, a "Millionaire's tax," which increased the tax rate on gross income between \$1 million and \$5 million to 10.75% (the rate on \$5 million-plus) from 8.97%. The second, an extension of the 2.5 percent surtax, which raised the corporate tax rate to 11.5% on profits over \$1 million. The third item of interest was the inclusion of a \$4.5 billion borrowing plan, to add to the current \$44.4 billion in outstanding bonds, which places New Jersey with the highest debt per capita in the country. Proponents of these measures have argued that they will help the state refill its coffers and still allow support for its citizens. Opponents have argued that this is the wrong time, as the State looks to attract new companies and their executives, as well as retain its current ones.

The office market was performing well at the beginning of the year, with vacancies dropping and rents

*“As a result of the pandemic, sublease availability throughout New Jersey has increased more than 35% since the end of 2019. Sublease space in the office sector accounts for over 20% of total availability, compared to just 8% of total industrial availability. Office sublease availability is expected to double in 2021, while the industrial sublease availability is likely to remain flat.”*

increasing and an influx of new private owners, who were willing to invest capital to improve an aging stock. The pandemic then hit, and the office market went into a “deep freeze,” buildings became empty as employees worked remotely, and most transactions were put on pause. As we look to 2021 and beyond, tenants will be reassessing their real estate footprint and workplace strategies. AY is expecting the sublease availability to double or triple as a result. The “work from home” trend is expected to remain as many companies become more comfortable with the efficiency and productivity levels of their employees.

While the pandemic has created a new reality for the office sector, it has strengthened an already robust industrial market. A few trends have emerged that have made the industrial market in New Jersey even more desirable: (1) The increased demand for cold and refrigerated storage. As the pandemic set in, many people for the first time ordered their groceries online. This trend is expected to continue past the pandemic, resulting in an amplified need for cold storage facilities; (2) Companies are taking a closer look at their supply chain, and the disruption caused by the pandemic. This has led to many companies examining the option of reshoring some of their manufacturing, as well as more local redundancies in their supply chain; (3) New Jersey’s legalization of marijuana. In November, the citizens of New Jersey voted to legalize the recreational use of marijuana via an amendment to the state constitution. The state legislature is now tasked with creating the laws and regulations for the personal use and growth of marijuana in the state. We anticipate that this amendment will lead to increased demand for industrial space, especially in the less traditional distribution locations throughout the State.

## Trend watch



### DeGlobalization 2.0

As a result of COVID-19 companies are looking to deglobalize parts of their supply chain, to reduce both the logistic and political risks that have become more prevalent with Brexit and tension between the US and China. New Jersey is expected to be a beneficiary of this trend, especially in the pharmaceutical sector.



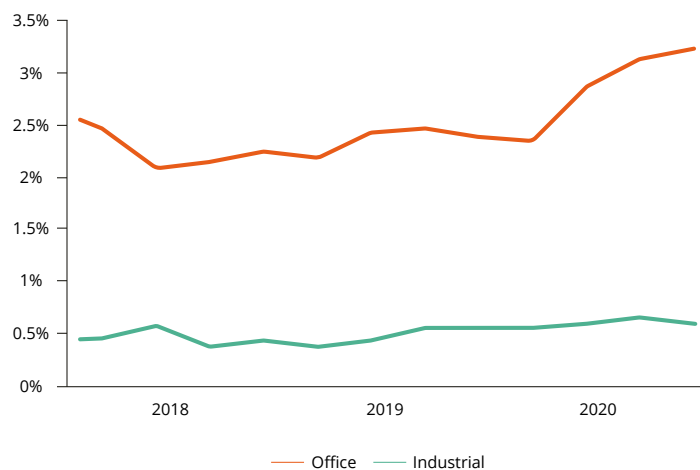
### Hyperlocal

E-commerce has expanded by more than a third in many markets in 2020. This has worsened a challenge that has been plaguing the e-commerce industry the past few years, of solving the “last mile”. Some of the solutions include micro-distribution centers, “dark stores” and using existing retail as distribution centers, further blurring the lines between retail and e-commerce/logistics.

Click [here](#) for a complete list of Avison Young’s Trends for 2021

## New Jersey Market Sublease Availability

Source: CoStar



# Get more market information

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