BROKERAGE DIRECTORY

By George Gervasi, Coldwell Banker Commercial, Feist & Feist Realty

Central NJ Office Market: Current reality is half empty-half full

Is the glass half empty or half full? Simple, it is both. The glass, or in this case the market, is somewhere in the middle. I'll quote a line from the King of Queens; Doug (Kevin James) is happy to be right in the middle. "Not too good, not too bad, right on the cutting edge of…mediocre."


George Gervasi

Now, that is not to say that we as brokers and property owners are at all pleased with this mediocre reality, but it is the current reality. So, as professionals, we mainly deal with and in the moment's reality. (well most of us anyway!)

So when it comes to the market, specifically the office market within CNJ, we are dealing with high vacancies, flat micro and macro economic conditions and an especially hard hit labor market, both here in NJ and across the country. Ultimately it has resulted in reduced income streams and unstable conditions for investors and property owners. The bottom line is that the market is very slow-moving, but it is moving. Any forward progress, even minuet is a better option than no movement at all.

Though conditions are somewhat harsh, it is not all negative and dour on the real estate front. There are actually some upsides to recessions and cyclical real estate markets. For one, lessees and potential property purchasers have been able to capitalize on much lower rents along with generous concessions. This along with lower purchase prices for properties that only a few short years ago were at some of the highest levels in decades.

Reduced rents have allowed businesses to either renew/lock into long-term favorable leases and/or allow new businesses to obtain spaces that may have been out of reach a few years ago. Some companies have even expanded, albeit a very small group. But nonetheless, the recession and downside of the market has been positive for a select amount of businesses.

While we cannot ignore the 20% to 30% overall vacancy rate in the office sector and that the first quarter of 2011 has slowed a bit, it still presents opportunity to place potential tenants into premium spaces that may be operating on restricted/tight budgets or limited funding. Whether it is existing renewals looking to perhaps 'move up' or new start-ups, everyone is looking for a "good deal" and as commercial property professionals, we have these circumstances in which there are some good opportunities to make deals.

For instance, there are many good choices and spaces available for rent in Somerset County, specifically along the Route 22/202 corridor from Bridgewater to Branchburg for office space. Rental rates are very attractive and lease terms have become very flexible, as most landlords and owners have become more risk averse in the last two years and realize to a degree, that securing tenants, even in the short term is a better alternative to empty, vacant space.

They understand (though often reluctantly) that offering concessions and lower rates to a portion of these new type and potential tenants may help them better weather the economic storm and as the economy improves so to will some of their businesses. The potential outcome will be in the form of a portion of renewals and possible expansions along with lengthier lease terms as well. The effective result of lower rates and value-added concessions will most likely be an increase in tenant stability for office properties. It goes without saying, but I will anyway- stable tenancy equals stable income and that is one of the goals I believe most share in commercial real estate.

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