

# 1Q2019

## Medical Office Report

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# Medical Office 1Q'19 Market Report



Medical Office  
Market

385 Prospect Avenue, Hackensack

## At a Glance...

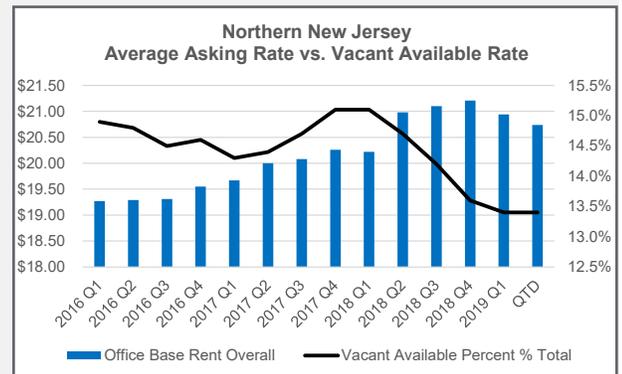
- There are currently 2,417 medical buildings in Northern New Jersey, which consists of 12 counties, representing 37,256,780 square feet.
- The Bergen County market accounts for 362 (15%) of those medical buildings or 5,071,864 square feet.
- Average asking rates ended the quarter at \$20.94 per square foot base rent in Northern New Jersey compared to \$23.42 per square foot base rent in Bergen County.

## Market Update

The Northern New Jersey market saw over 230,000 square feet leased in the first quarter of 2019. Average asking rates ended the quarter at \$20.94 per square foot. Compared to the previous quarter, rates are down \$0.27 per square foot and compared to a year prior, rates are up \$0.72 per square foot. Vacancy ended the quarter at 13.4%, which is down slightly (0.2%) from the previous quarter. Compared to the first quarter of 2018, the vacancy rate is down 1.7%. There was over 60,000 square feet absorbed in the quarter.

The Bergen County market saw over 61,000 square feet leased in the quarter. Average asking rates ended the quarter at \$23.42 per square foot. Compared to the previous quarter, rates are up \$0.18 per square foot and compared to the first quarter of 2018, rates are up \$0.09 per square foot. The vacancy at the end of the quarter was 8.8%. Vacancy is up 0.4% from the previous quarter, but is down 1.6% compared to the first quarter of 2018. Net absorption ended negatively with over -49,000 square feet absorbed.

More and more hospitals are now offering procedures done by robotic surgical systems. Atlantic Health System at Morristown Medical Center added two robotic surgical systems which have completed more than 8,900 robotic operations to-date. The procedures allow patients to return home faster, with less complications, reduced scarring, less blood loss, and less pain medication.



## Top Transactions for 1Q'19

### SALES

220 Kinderkamack Rd., Westwood

7,215 sf sold for \$1,125,000

**Buyer:** KYODO USA

**Seller:** Jennifer Jasmine of Plaza One LLC

149 Palisade Ave., Jersey City

3,180 sf sold for \$875,000

**Buyer:** Michael Benz, MD

**Seller:** Gor Renuka

### LEASES

6,000 sf - 498-500 Orange St., Newark

4,768 sf - 3799 Route 46, Parsippany

4,072 sf - 385 Prospect Ave., Hackensack

3,909 sf - 200 S Orange Ave., Livingston

\*Please see page 4 for NAI Hanson Transactions.

# Update on Recreational Cannabis Use

By: **Randy Horning, MSRE**

## **Recreational Cannabis in New Jersey: How Legalization Benefits Industrial and Commercial Real Estate**

Recreational cannabis is currently legalized in ten states and the District of Columbia. New Jersey has plans to join these ranks, as New Jersey lawmakers have been actively drafting cannabis legalization legislation. Due to New Jersey's population size, it is predicted that New Jersey's first year of legalized cannabis sales could exceed one billion dollars. By 2026, it is projected that the national adult use cannabis business will become a \$50 billion dollar industry. This entire industry will only be successful, though, if there is adequate real estate to support it. States that have successfully legalized cannabis have seen industrial, warehouse, and commercial real estate prices soar. New Jersey will need to prepare for the real estate "green rush" that will result from legalization. However, it is important to understand how federal law impacts state legalization. The differences between the two inform how real estate trends will change.

### **How Federal Mandates Impact State Legalization**

The federal government categorizes cannabis as a Schedule 1 drug. A Schedule 1 classification means that, according to the federal government, cannabis and marijuana have the potential for being easily abused, and they are perceived as offering no medical value. Additionally, transporting a Schedule 1 drug between state lines violates federal law. A state's legalization process of a Schedule 1 drug cannot override federal law. Therefore, even if New Jersey is successful in legalizing medical and recreational cannabis, it will remain illegal to transport New Jersey-grown cannabis outside of the State. This is why cultivation space is highly valuable for the cannabis industry. New Jersey's cannabis growing operations will need to be entirely self-sufficient. Every stage of recreational cannabis must be crafted within the state: from cultivation, to distribution, and even to consumption, every step of the recreational cannabis experience must occur within New Jersey's borders. In order to sustain such a delicate industry, recreational cannabis businesses will need to obtain vast amounts of industrial real estate space. This will ensure that the industry can grow enough cannabis plants to meet market demand.

### **Industrial Real Estate Market Grows Alongside Recreational Cannabis**

The cannabis industry requires vast amounts of space for plants to be cultivated, which explains why industrial real estate became increasingly valuable. Additionally, climate control is vital to growing cannabis plants, which is why spacious warehouses are valuable to cannabis growing operations. Even properties that were once considered less desirable have been seeing high occupation rates. It is estimated that a warehouse would need to be between 50,000 and 300,000 square feet in order to produce enough recreational cannabis to keep a business competitive. With New Jersey being one of the smallest states – in terms of land area – it will be necessary to find enough space to scale up cannabis production to an industrial scale. While this may seem like an unlikely reality, there are numerous industrial real estate properties that could benefit from legalized recreational cannabis. In cities, such as Trenton, there are many warehouses that are failing to find tenants, due to undesirable locations and outdated technology. With industrial space being highly valuable in the recreational cannabis industry, it has been observed that old or abandoned properties could be revitalized as cultivation spaces. Many of these properties are quite large, which is additionally beneficial to cannabis operations. This is particularly notable considering that available industrial space is limited in cities. Additionally, half of Trenton's properties are tax-exempt, being owned either by religious organizations, the government, or hospitals. The other half of available properties could see a stark rise in value. Appropriating these spaces for the cannabis industry could not only revitalize urban centers, but also, cities could see formerly under-performing properties become profitable once more.

# Update on Recreational Cannabis Use continued...

## Commercial Real Estate Market Revitalized by Cannabis Retail

The legalized cannabis industry requires more than warehouse space: in order to sell product at scale, it is necessary to acquire commercial spaces. There will be a demand for retail spaces once New Jersey recreational cannabis sales are fully legalized. It is no secret that American malls have been struggling to retain business in recent years. Between 2010 and 2013, consumer visits to malls declined by 50%. However, moving cannabis retailers into suburban strip malls could revitalize suburban and strip mall real estate. Cannabis retailers have high traffic, which can then attract additional businesses and tenants to a strip mall. The model of renovating a mall to meet the interests of the recreational cannabis industry has been a proven success. While strip malls are projected to be wildly successful following cannabis legalization in New Jersey, they are not the sole commercial real estate properties that will benefit from legalization. "Marijuana tourism" is a growing industry in numerous cannabis-friendly states. Marijuana tourism can include touring commercial cannabis warehouses, experiencing glassblowing demos, visiting recreational dispensaries, and relaxing in entertainment lounges. Many commercial properties can be involved in this new tourism sector. Restaurants, hotels, clothing brands, and even wineries can join the recreational cannabis industry as tourism hubs. Marijuana tourism has certainly made its impact already in like kind states. Various commercial properties can re-invent themselves to accommodate this new tourism sector. Property owners should prepare for the upcoming cannabis industry now, so that prospective businesses can acquire real estate ahead of time. New Jersey's legalized cannabis industry will have positive and far-reaching effects on both the industrial and commercial real estate markets.

## Featured Medical Office Properties of NAI James E. Hanson



**1135 Broad Street**  
Clifton, NJ  
36,141 sf for lease  
Medical Office



**177 N. Dean Street**  
Englewood, NJ  
10,444 sf for lease  
Medical Office



**23-00 Route 208**  
Fair Lawn, NJ  
5,014 sf for lease  
Medical Office



**90 Prospect Avenue**  
Hackensack, NJ  
6,253 sf for sale  
Medical Office



**140 Prospect Avenue**  
Hackensack, NJ  
7,700 sf for lease  
Medical Office



**1132 Spruce Street**  
Mountainside, NJ  
1,233 sf for lease  
Medical Office



**122 E. Ridgewood Avenue**  
Paramus, NJ  
2,224 sf for lease  
Adjacent to Valley Hospital



**75 Orient Way**  
Rutherford, NJ  
4,654 sf for lease  
(last remaining suite)