The topic of suburbanization has come to the forefront as COVID-19 spreads and the subsequent shutdown endures. As the virus lingers, we’ve seen big city residents migrate to less dense places in the suburbs to seek shelter. While most of these moves are a temporary response to the pandemic, population data suggests urban centers have been losing their allure since the late 2010’s. Soaring rents pushed residents out into the suburbs, seeking more space and better education for their growing families, with the Millennial generation leading this trend. The majority of Millennials are now entering their 30’s and make up the largest group of home buyers. Will the COVID-19 pandemic accelerate this outmigration? And if it does, will office employers follow the population shift in order to retain and attract talent? There are arguments for both sides, but all agree that only time will tell.

Introduction

New Jersey finds itself in a unique situation. COVID-19 has been devastating major cities, including New York City, as the virus spreads rapidly through dense, public transit-oriented urban centers. While New Jersey wasn’t spared from the damaging effects of the virus, it offers more room and larger homes within an automobile-oriented suburb. The sheer amount of space makes it easier to safely practice social-distancing. What was once a liability for New Jersey is now an asset in the post-COVID-19 environment.

Many anticipate the population shifts will be short-lived and residents will return to urban centers once some semblance of normalcy returns. On the other hand, the consequences of the novel coronavirus may force some urban occupants to relocate permanently. Many suburban real estate agents are noting a significant uptick in inquiries from tenants coming out of Manhattan.

If migration from Manhattan to New Jersey has staying power, companies may have to rethink their office space needs. It is unlikely that we will see a mass exodus. Manhattan has the benefit of drawing employees from the entire Tri-State area, so a complete relocation may not be prudent in all cases. COVID-19 is, however, changing the way how office users look at their space. Open offices with benching which creates space efficiencies, once prized, may now change as tenants look to de-densify in order to keep their employees safe. Many employees are commuting into Manhattan from the suburbs, so corporations may be inclined to open smaller satellite offices close to where their employees live. If this happens it will be a boon for New Jersey’s office market, which has struggled with relatively high availability since the Great Recession.

According to Figure 1, recent commutation data shows that over 306,000 New Jersey residents currently commute into New York County for employment, half of which are coming from Bergen and Hudson counties. If COVID-19 accelerates population migration into the suburbs, the speculation about companies in Manhattan setting up satellite offices in New Jersey may become a reality. Their total footprint will likely remain the same, but it will be spread out into different markets to keep people from having to take public transportation. We are early in the process of this movement, as companies are still figuring out how and when they will reopen their offices. Still, inquiries have been made, which has been fueling this conversation. It remains to be seen if this movement will be short-term trend or something a bit more permanent.
Demographics & New Jersey’s Suburban Office Market

It wasn’t long ago that commercial real estate headlines were peppered readers with the notion that the suburban office market had fallen out of favor and bucolic office complexes had become relics of the past. The isolated and automobile-centric office parks of the 1980’s fell out of favor as tenants flocked to the urban core to attract millennials who enjoyed the downtown vibrancy, public transportation, and density downtowns offered.

To keep and attract office users, many suburban landlords have spent the last decade acquiring and renovating centrally located properties to meet the needs of today’s tenants. Modern and amenity-rich office buildings that offer a downtown feel within a suburban setting has proven to be highly sought after in New Jersey as employers seek to attract and retain talent. The renovated office buildings in New Jersey today offer many of the amenities desired by tenants, mimicking a downtown feel within a campus setting.

Attracting talent has been one of the major considerations for many employers when conducting space searches. If the suburbanization trend sticks, we may see increased tenant demand in New Jersey. Recent population data suggests New Jersey is in the early stages of suburban migration as municipalities are growing at a faster pace than the urban core. The IRS tracks migration data based on the year-to-year changes in address reported on income tax returns. Figure 2 illustrates that in 2018 there were over 8,800 tax returns filed in New Jersey that in 2017 had an address in New York County, which further solidifies the suburban migration trend.
This dynamic may lead to renewed interest in suburban office parks, as health has now become a major concern in a post-pandemic world. Driving to work prevents contact with others and parking, which is typically free in the suburbs, is an important commodity, as parking is tight and costly in the city. Furthermore, suburban office buildings in New Jersey are typically four to five stories, allowing employees to skip the elevator and use stairwells to get to their offices. This is another way to help people to keep a safe distance between one another for as long as social distancing mandates are in place.

The Race to Accommodate Millennials

Millennials have been the demographic cohort most catered to over the last decade, and for good reason. Not only do millennials make up most of the adult generational population, they are also currently the largest block of home buyers. In the past, many have pointed to millennial behavior as the cause for the struggling suburban office market. This time they are anticipated to be the remedy.

A recent analysis by Brookings Institute showed urban centers were losing steam in the late 2010’s. Soaring rents pushed residents out into the suburbs, seeking more space and better education for their growing families. Millennials are starting families but doing so later than previous generations. Only 27% of millennial women aged 20-23 have a child as compared to 58% of millennial women between 32 and 36. This trend will accelerate as the largest cohort of millennials, born in 1990 and 1991, enter their 30’s, further increasing demand for the types of benefits and amenities that suburban living provides for a growing family. The population data by generation, outlined in Figure 3, shows that New Jersey’s population is nearly evenly distributed among Baby Boomers, Millennials, and both Generation X and Z, while millennials are clearly the dominant generation in New York County. As Millennials think about starting families, the COVID-19 pandemic may fast-track their migration into New Jersey’s suburbs.

![New Jersey Population By Generation](image1)

![New York County Population By Generation](image2)

Figure 3 - Source: US Census & ESRI
**Manhattan Pricing Premium – Spread Continues to Widen**

The spread in asking office lease rates between New Jersey and the three Manhattan markets has never been greater. Midtown South and Downtown asking rents are at or near all time highs, while Midtown is up 46.9% from its post Great Recession low. Conversely, New Jersey’s asking rent has stayed relatively flat since 2002, remaining within the $24.00-$28.00/SF range and is only up 14.6% from its post Great Recession low. In Q1 2010 the Manhattan premium was $33.54, $10.89, and $11.42 per SF in Midtown, Midtown South and Downtown respectively. Ten years later, this premium has soared to $57.50, $49.69 and $37.53 per SF and has never been higher. Companies looking to de-densify or scale down their urban offices can save significantly on real estate costs by opening smaller satellite offices in New Jersey and other Tri-State suburbs.

There are several reasons why a suburban office strategy makes sense in our post-pandemic world – population shifts, maintaining the health of employees, and pricing among them. Manhattan will continue to remain the central headquarters of many corporations for a multitude of reasons, but suburban outpost offices may play a larger role. We are still very early on in this cycle, so this is an important dynamic to follow closely. There are also questions surrounding how long these moves will last. When looking at past cycles, these moves are typically ephemeral. For instance, after 9/11 many tenants who relocated the suburbs returned to Manhattan when things got back to normal. The impact COVID-19 will have on our market and economy is unprecedented and it is unclear how long the spread will last. The longer its time frame extends, the higher priority it becomes for people and businesses to mitigate risk and economic impact.
443 offices in
68 countries on
6 continents

United States: 111
Canada: 41
Latin America: 18
Asia Pacific: 36
EMEA: 80
ANZ: 20

$3.5 billion in annual revenue
2.0 billion square feet under management
18,000 professionals and staff

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