
2Q23

Southern New Jersey Office Market Overview



NEWMARK

Market Observations

Economy

- The Camden Metro was in lockstep with the national economy, posting similar unemployment and 12-month job gains in May.
- According to the state of New Jersey’s WARN notices, SDH Services East, LLC, a subsidiary of Sodexo, Inc., laid off 93 workers at its Voorhees location. This was the largest single-location layoff in the Southern New Jersey office market.
- The largest year-over-year employment gain was in the leisure and hospitality industry. With approximately 54,900 workers in May 2023, the sector has finally recaptured the jobs it lost during the pandemic.

Major Transactions

- In April, Freedom Mortgage sold its 47,612-SF office at 907 Pleasant Valley Avenue to an industrial developer who will convert the property to industrial use. The property sold for \$15.2 million or \$1.26 million/acre.
- Pennsylvania Real Estate Investment Trust (PREIT) decided to either raze or redevelop its 116,742-SF office at 1 Mall Drive. The remaining tenants in the mid-rise building vacated their spaces by the end of the second quarter of 2023.
- BL Manager LLC renewed its 5,720-SF lease at 523 Fellowship Road.
- At 224 Strawbridge Drive, Allstate Insurance closed its 18,000-SF office.

Leasing Market Fundamentals

- Anecdotal observations indicate a slow leasing market. Spring break and the beginning of the summer travel season were reasons given for the cooldown in market activity.
- Cherry Hill and the 3 Ms (Mount Laurel, Moorestown, and Marlton) have seen the largest share of tenant activity in the market.
- Mount Laurel accounted for 77.9% of negative absorption in the Southern New Jersey market. Space givebacks by Taylor Wiseman and BAE were the main sources of vacancy additions.

Outlook

- Industrial developers continue to target obsolete office product in areas permitting industrial uses. Class B and Class C offices make up nearly 70% of office inventory in Southern New Jersey and account for 74.2% of vacant inventory. The removal of older office buildings is key to right-sizing this market.
- Activity is expected to pick up around the end of August and into September as the vacation season ends.

1. Economy
2. Leasing Market Fundamentals

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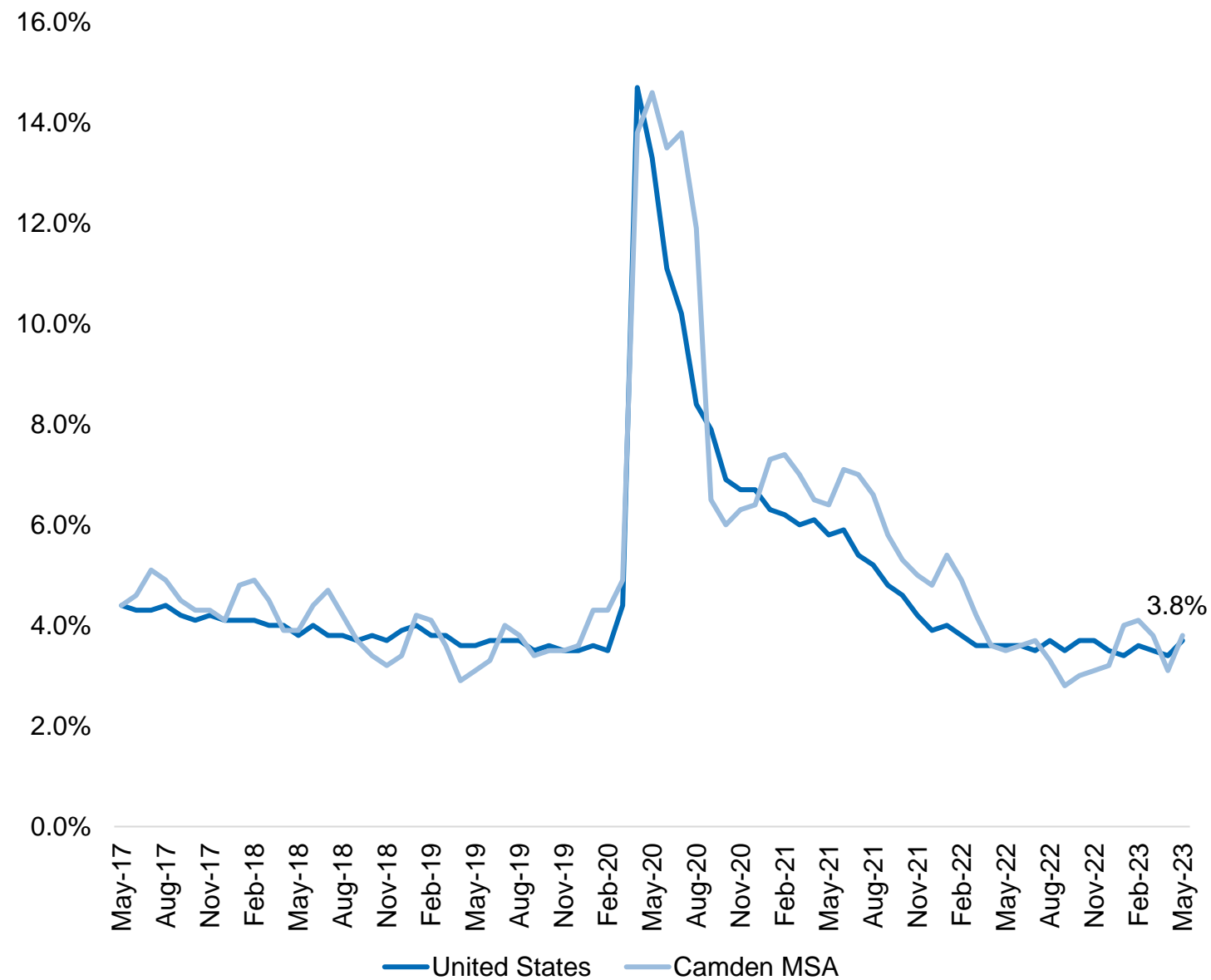
Economy



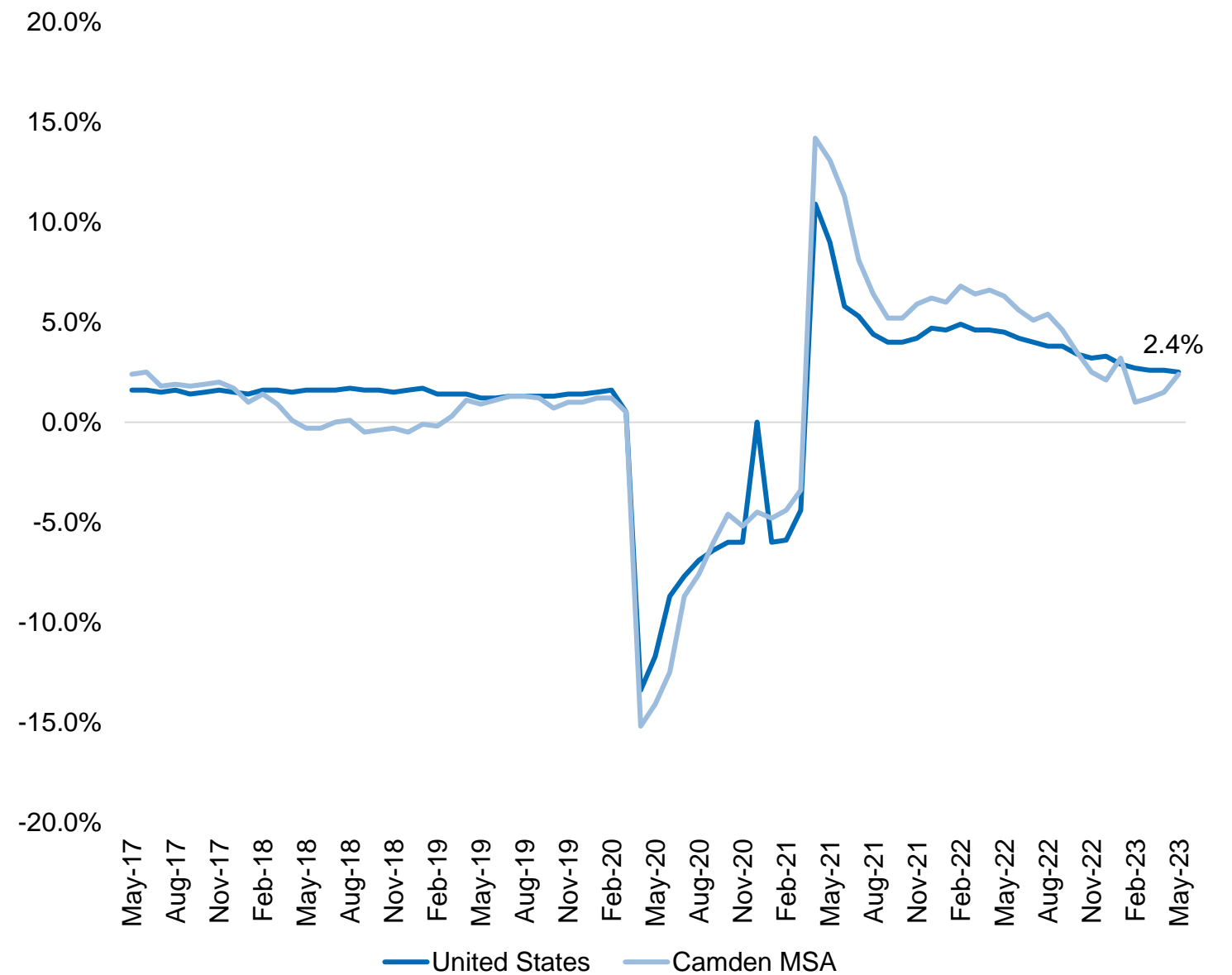
Metro Employment Buoyed by Gains in the Leisure and Hospitality Sector

The Camden Metro's employment was in step with the national economy. Job gains were most pronounced in the leisure and hospitality sector as businesses gear up for the summer travel season. Between April and May alone, the industry added 4,200 jobs.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

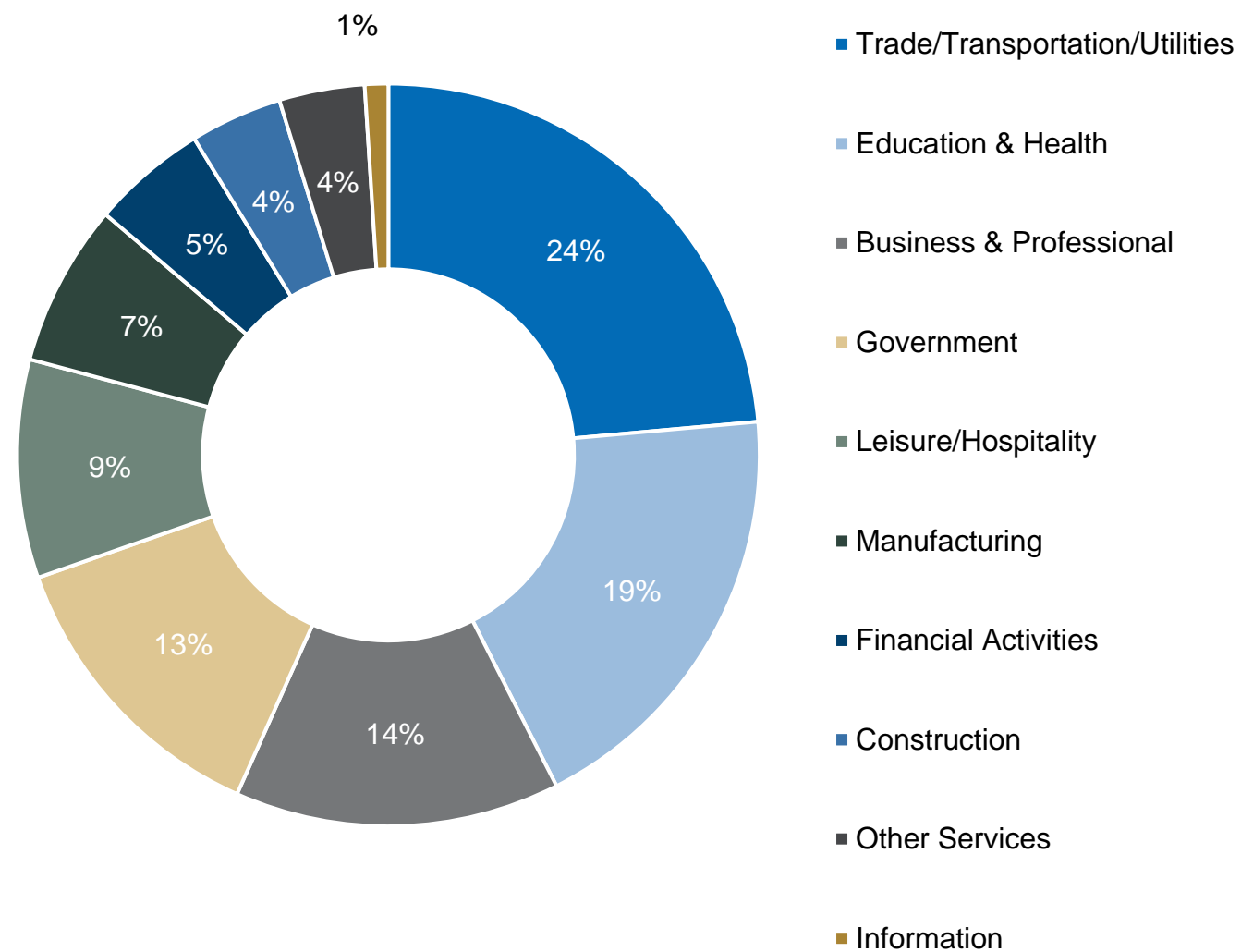


Source: U.S. Bureau of Labor Statistics, Camden Metro Division

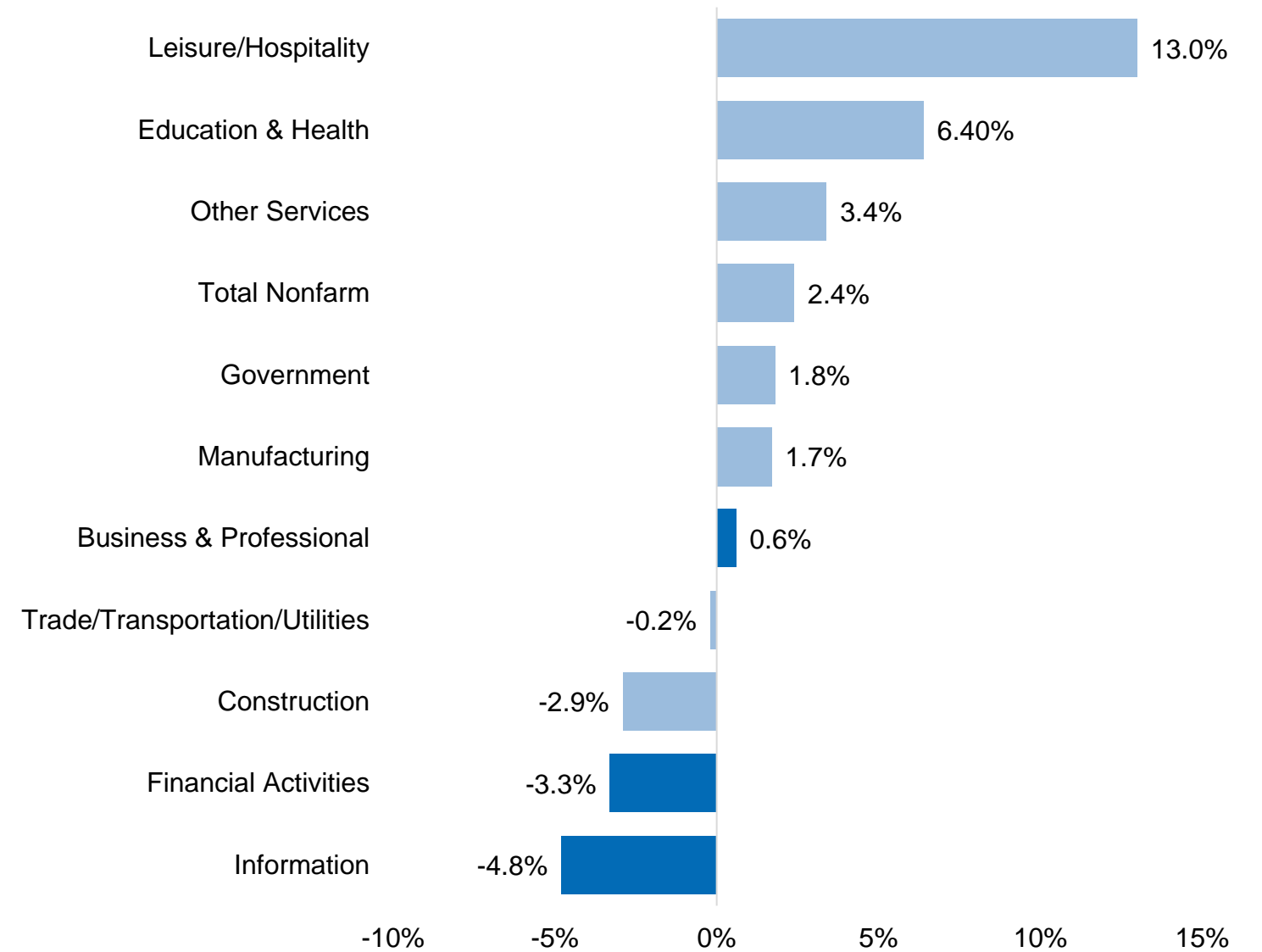
Employment Levels Reach New Highs

Southern New Jersey's employment population reached new highs in the second quarter of 2023. The leisure and hospitality sector, along with the education and health services sector, now employ more people than they did pre-pandemic.

Employment by Industry, May 2023



Employment Growth by Industry, 12-Month % Change, May 2023

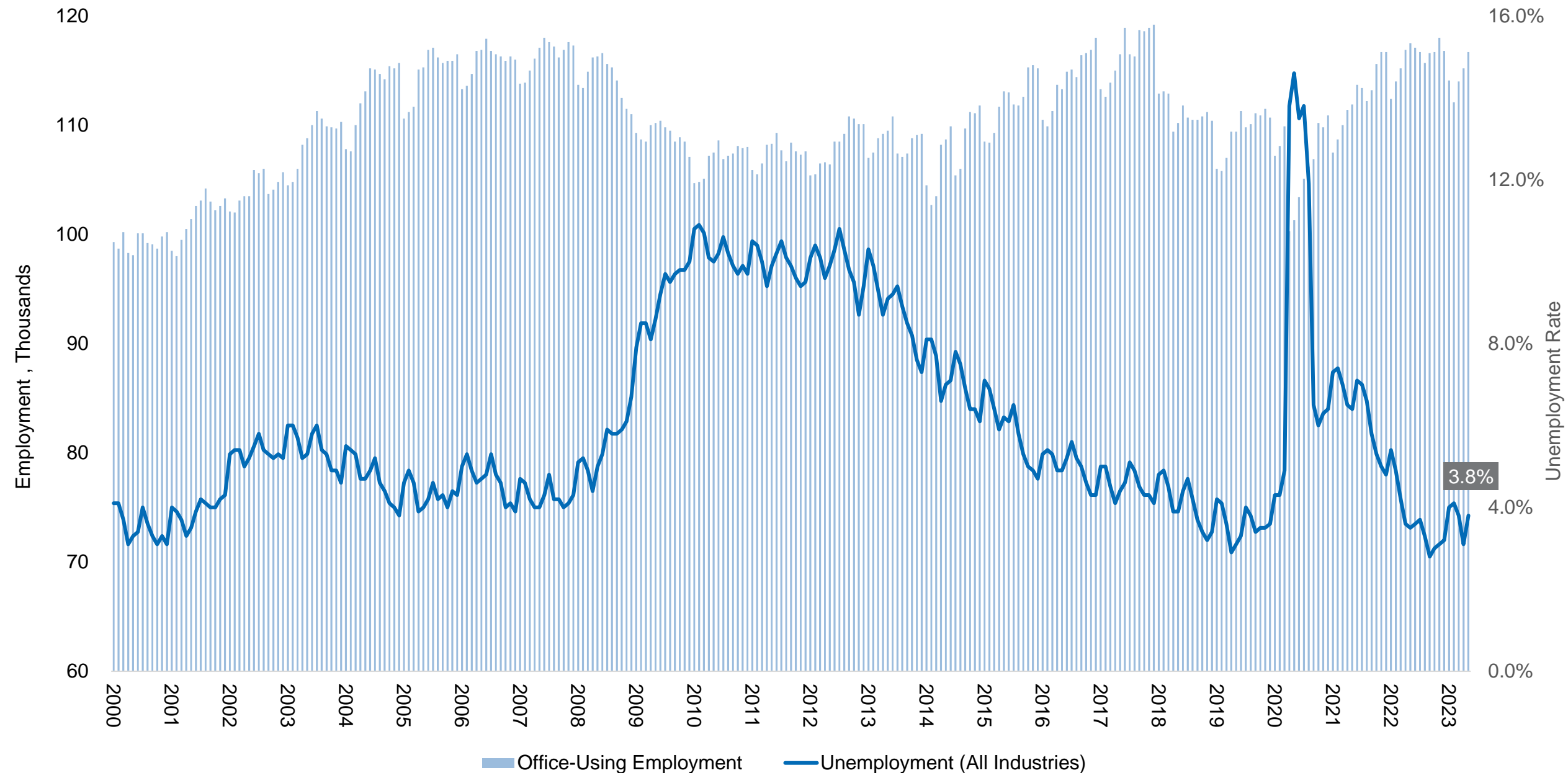


Source: U.S. Bureau of Labor Statistics, Camden Metropolitan Division

Overall Office-Using Employment Has Rebounded

Office-using employment has surpassed pre-pandemic levels but is still below its 2017 to 2018 peak due to declines in information sector employment. Elevated office-using employment has contributed to the market returning to vacancy levels observed before the health and safety lockdowns of 2020.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Camden MSA

Note: May 2023 data is preliminary.

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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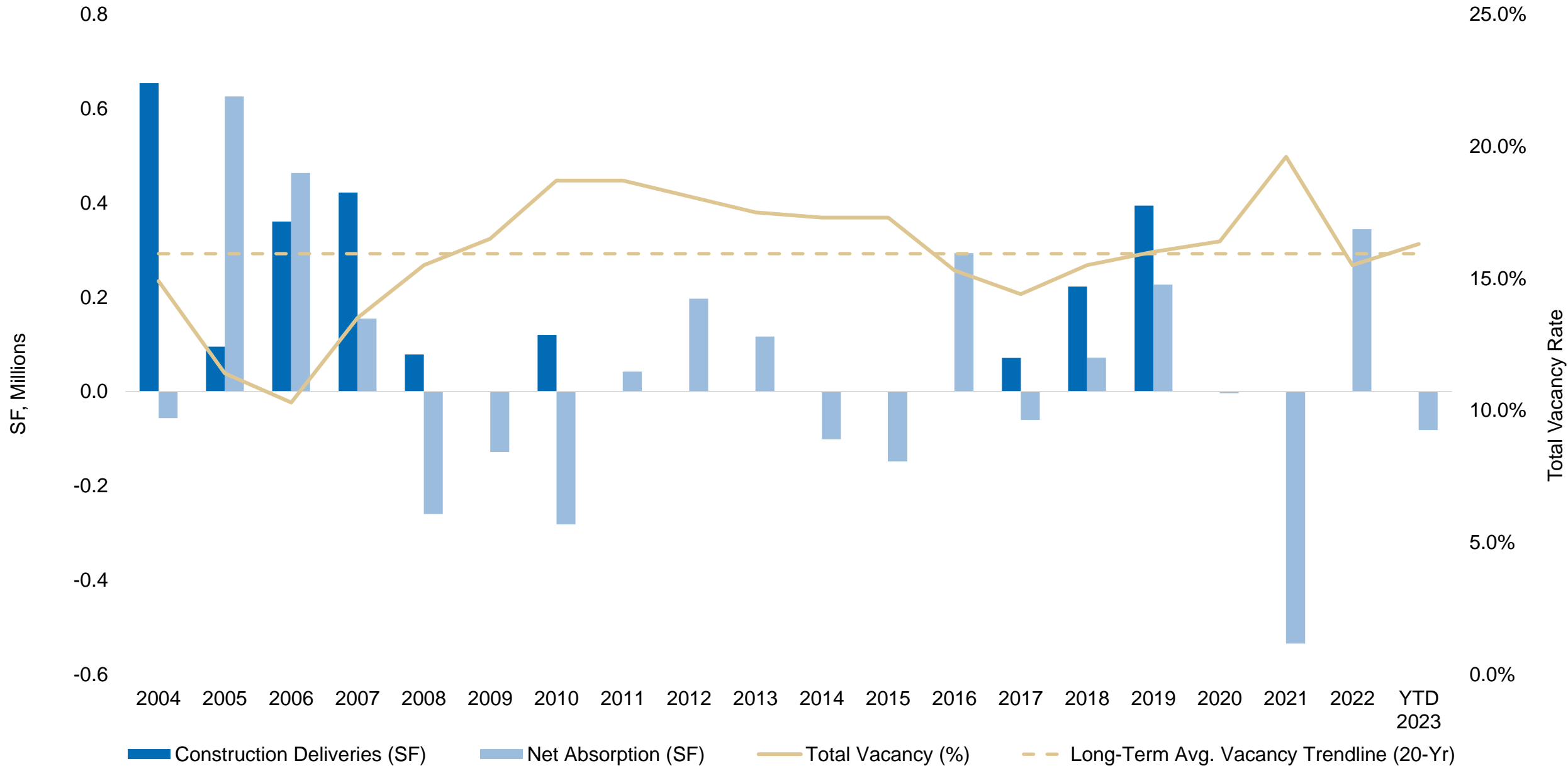
Leasing Market Fundamentals



Vacancy Stays in Line With Historic Averages

The Southern New Jersey office market has recovered from pandemic-related occupancy losses due to strong absorption in 2022 and inventory reductions caused by industrial conversions. More redevelopment sales are expected in this market; however, a challenging financing environment has made these trades difficult to execute.

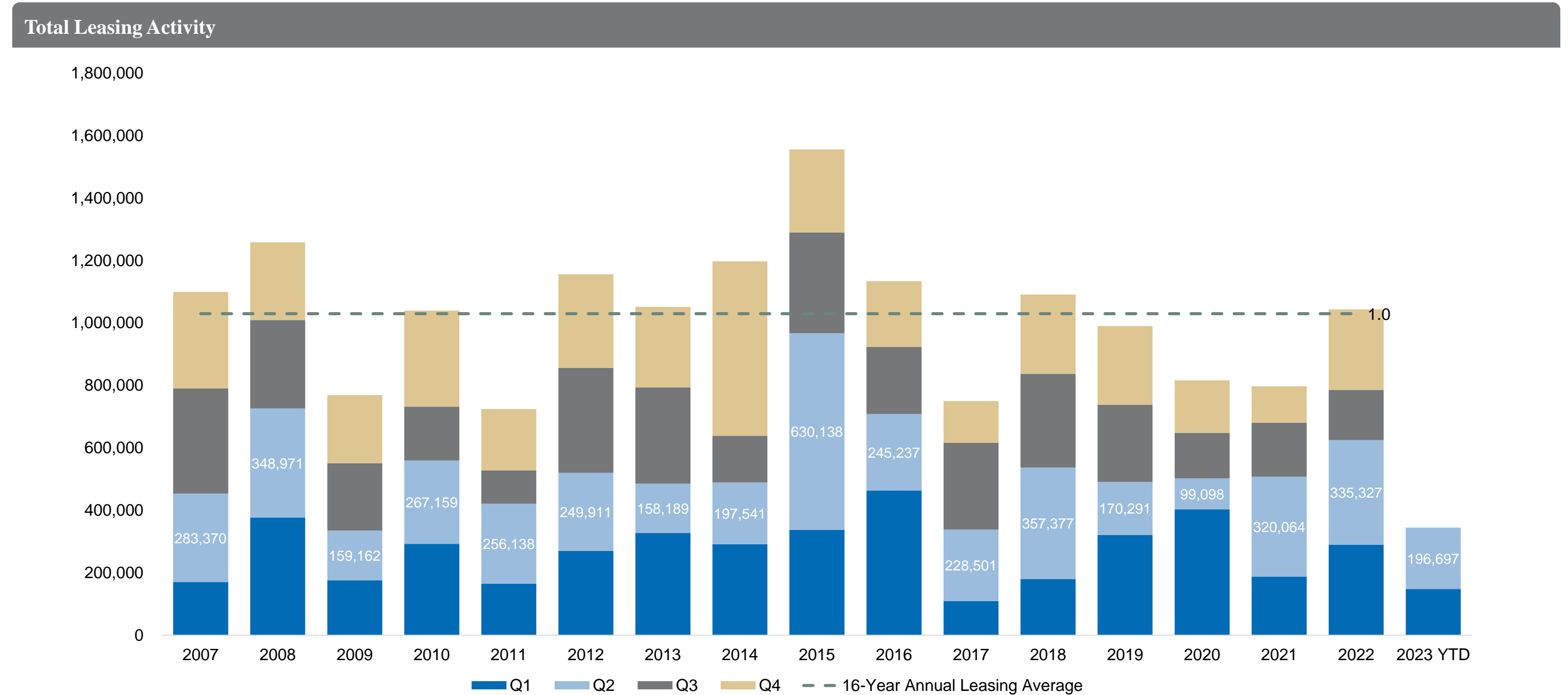
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Leasing Activity Pace Has Slowed

Total leasing activity in Southern New Jersey during the first half of 2023 is 39.1% off the pace from 2021 to 2022 first-half averages. Observers should keep in mind that the Southern New Jersey office market is stable and healthy, posting vacancy figures in line with historical averages.

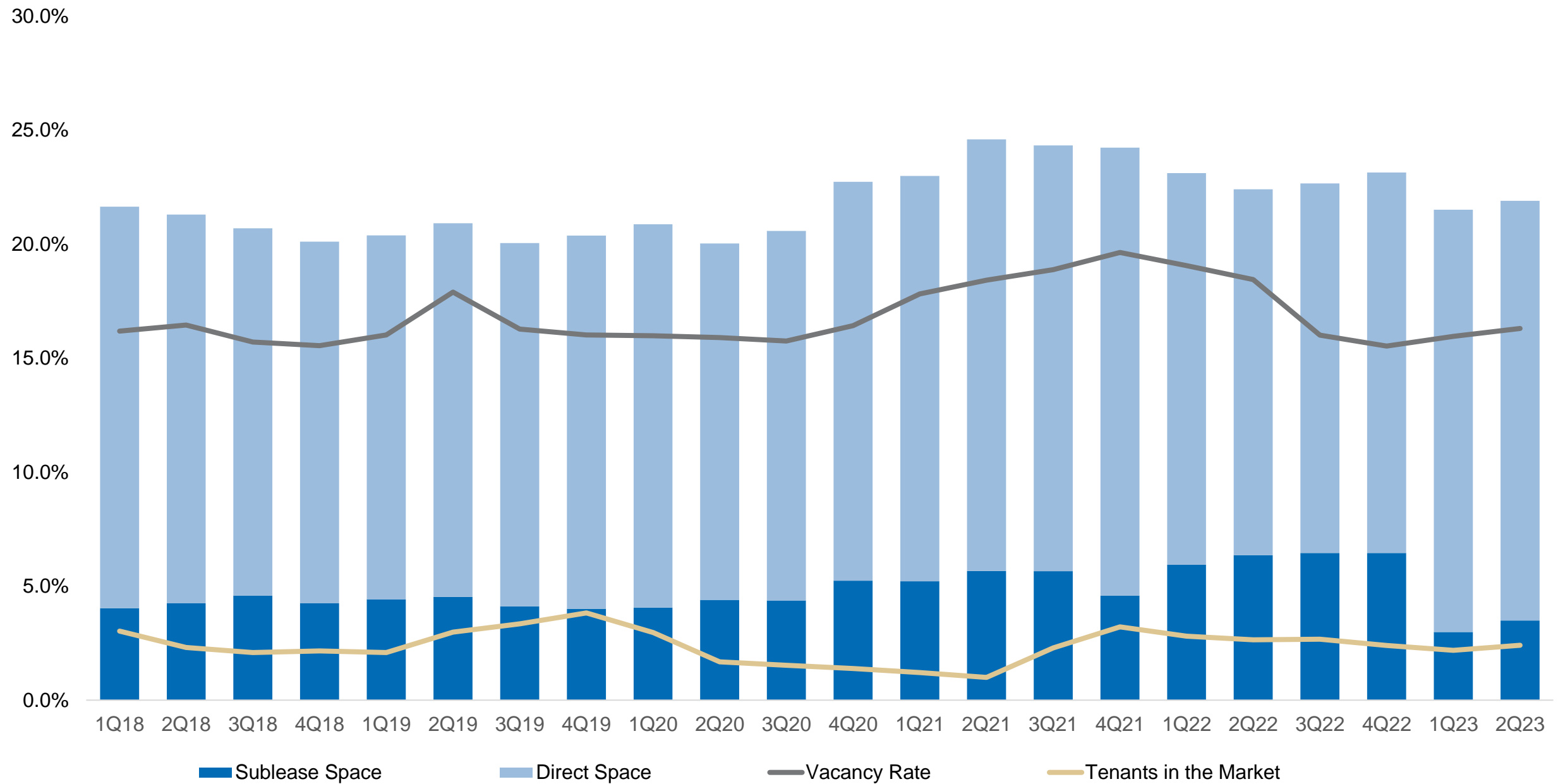


Source: Newmark Research, CoStar

Availability and Demand Remains Stable

Tenant demand in Southern New Jersey has been fairly stable since last year, declining only by 30 basis points year-over-year. Over 95% of existing demand targets major submarkets like Cherry Hill and the 3 Ms.

Available Space and Tenant Demand as Percent of Overall Market

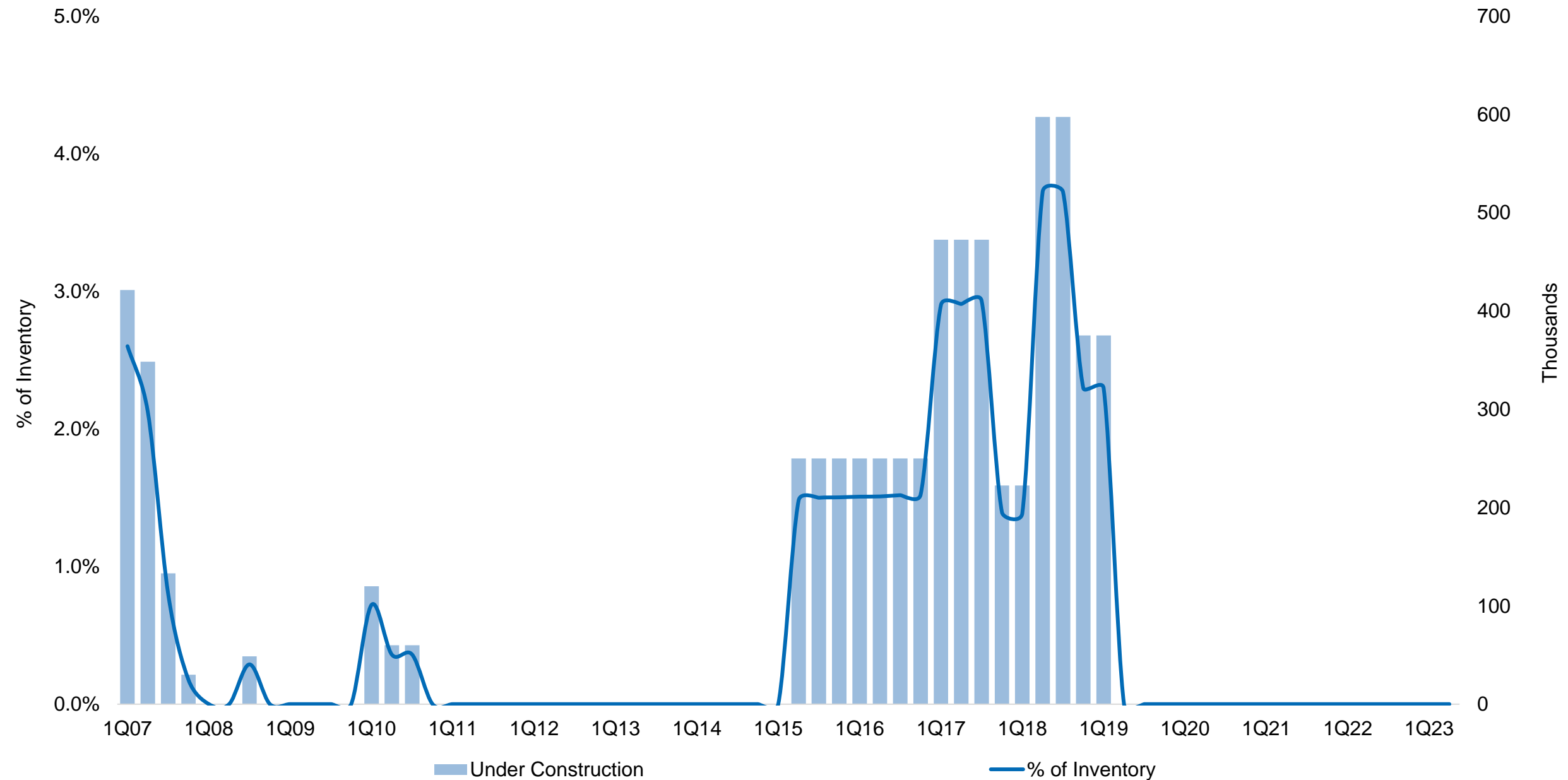


Source: Newmark Research

New Construction Remains Absent as Market Continues to Right-Size

Southern New Jersey has not seen new construction since the completion of American Water Headquarters and 2 Cooper Street in 2018 and 2019, respectively. New builds would be hard to undertake in this market as Class A rents have shrunk since 2020 and have remained stagnant since last year. Paired with the elevated cost of labor, new construction would be difficult to justify.

Office Under Construction and % of Inventory

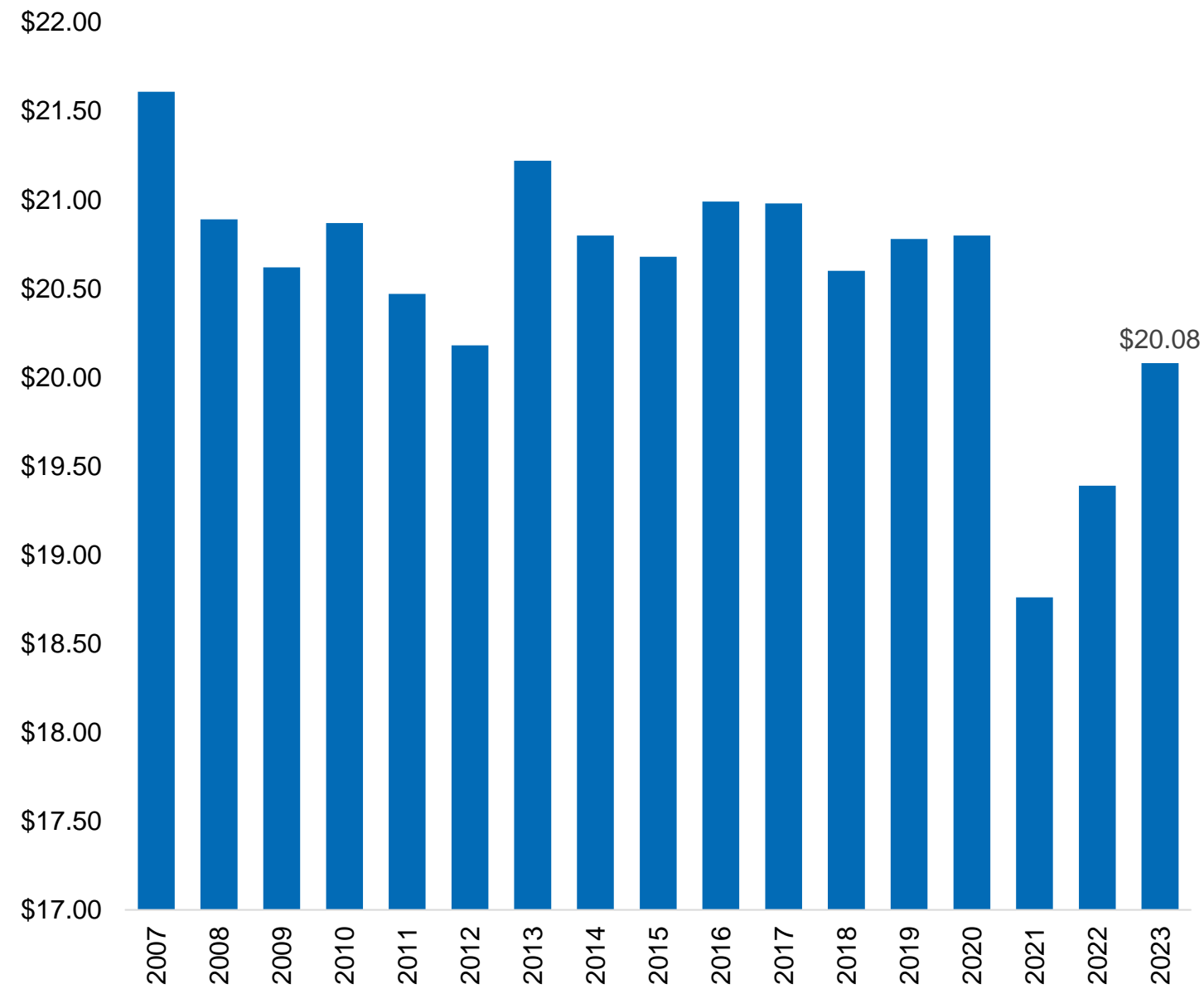


Source: Newmark Research, CoStar

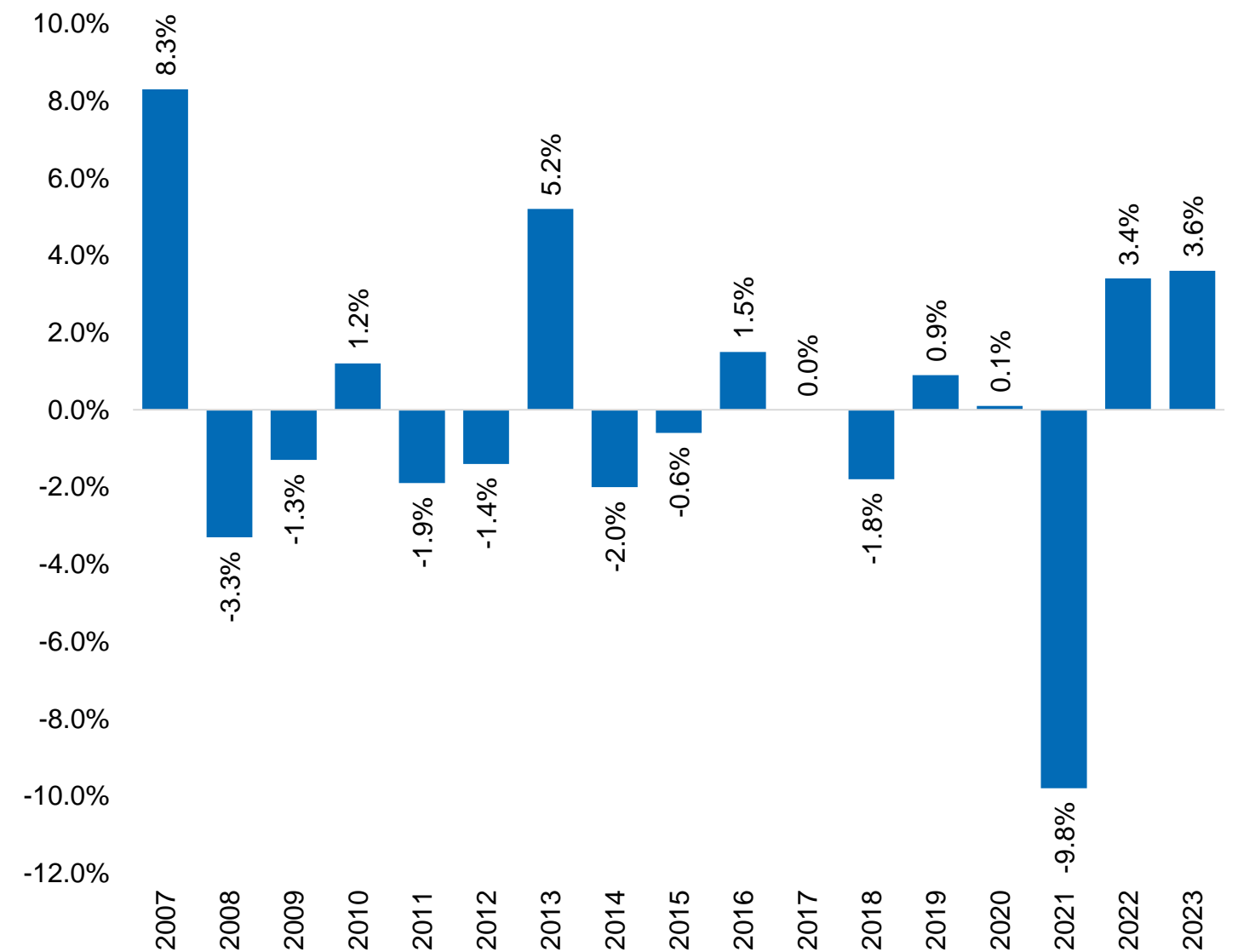
Rents Continue to Recover

The market's average asking rent breached \$20/SF for the first time since the first quarter of 2021. Asking rates need to grow by around 3.5% to fully recover from the pandemic.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

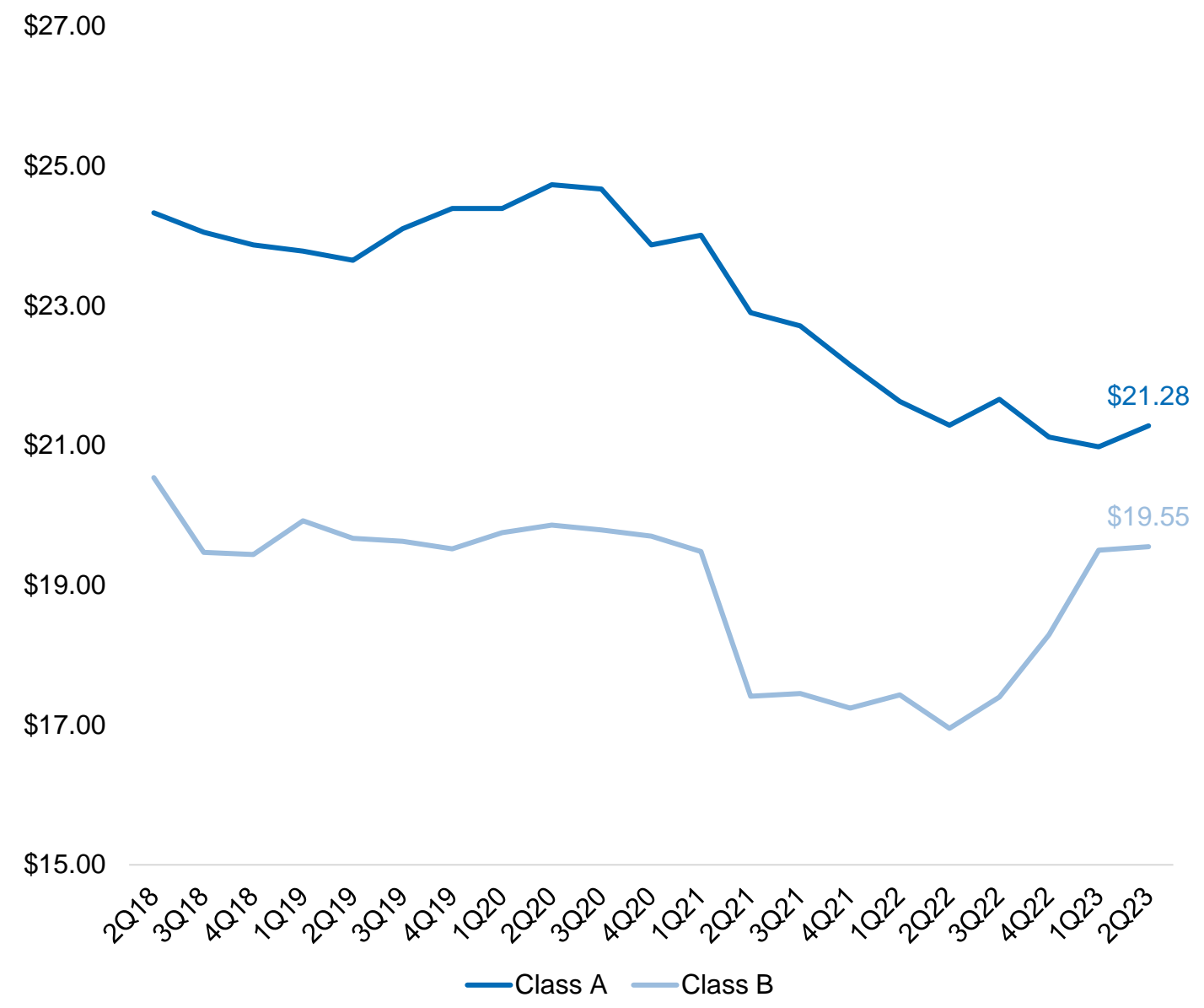


Source: Newmark Research

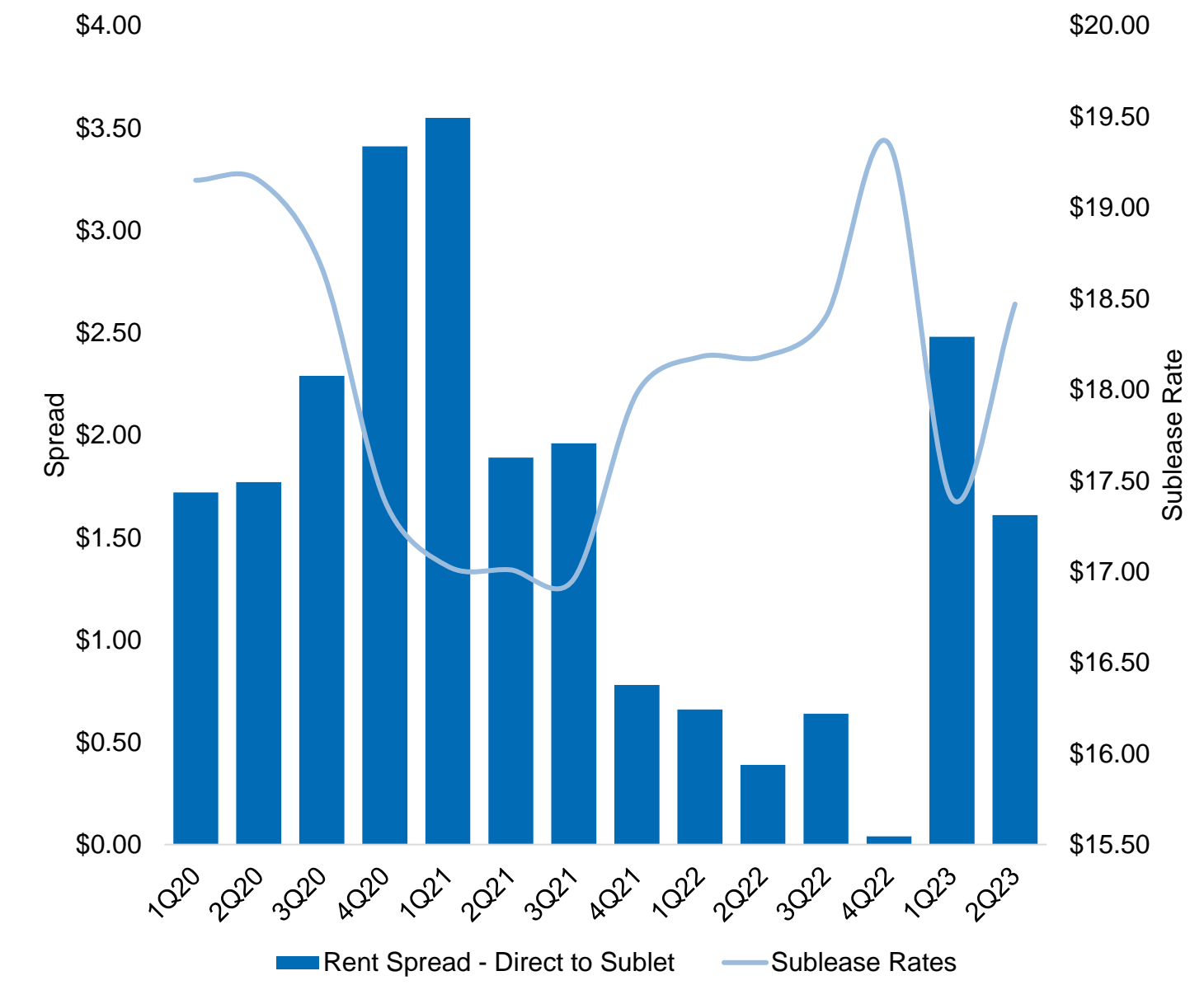
Asking Rents Remain Compressed in the Class A Sector

Asking rents for Class A space have declined 14% from its five-year peak, and Class B rates have recovered to pre-pandemic levels in the second quarter of 2023. Some of the declines in Class A rates can be attributed to ownership. Many local, non institutional owners in Southern New Jersey dropped asking rates to court new tenants. Sublease rates increased 6.1% quarter over quarter; however, the market's sublease inventory is small compared to other areas around Philadelphia.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Leasing Activity Slows

Leasing activity was sluggish in the second quarter of 2023, but tours and leasing activity are predicted to pick up as the summer progresses. Healthcare and legal requirements make up a large portion of tenants in the market and are expected to drive leasing activity in the months ahead.

Notable 2Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
BL Manager LLC	523 Fellowship Road	Mount Laurel	Lease Renewal	5,720
Fulton Foods, LLC	2 Riverside	Pennsauken/Camden	Direct Lease	4,346
Public Service Electric & Gas	2 Riverside	Pennsauken/Camden	Lease Renewal	2,750

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