



# Southern New Jersey Office Market

## Office Market Begins Path to Recovery While Preexisting Headwinds Remain

The Southern New Jersey office market ended the first quarter of 2022 with positive developments. The Omicron variant, which negatively impacted improving market conditions in the fourth quarter of last year, began to loosen its grip in the first quarter of 2022 and positive momentum was noted. With the pandemic waning, employers are beginning to implement onboarding strategies, thus employees are returning to the office in greater numbers. The market still faces considerable headwinds; large amounts of available sublease space and high direct vacancy linger from previous quarters.

The market's vacancy rate in the first quarter was 18.7%, an improvement of 40-basis points since last quarter, although vacancy has declined by 110-basis points since 1Q21. Absorption in 1Q22 was positive for the first time in five quarters. This improvement was felt in four out of the six Southern New Jersey submarkets. The Cherry Hill submarket was the largest beneficiary this quarter in terms of absorption, with 48,047 square feet of occupancy gains being realized. The Voorhees/Gibbsboro submarket was the biggest laggard in the first quarter of 2022, giving back 20,175 square feet. This submarket's vacancy of 44.6% is a serious detriment to the Southern New Jersey office market, skewing the region's statistical fundamentals to a degree that does not reflect an accurate picture of general conditions.

### Current Conditions

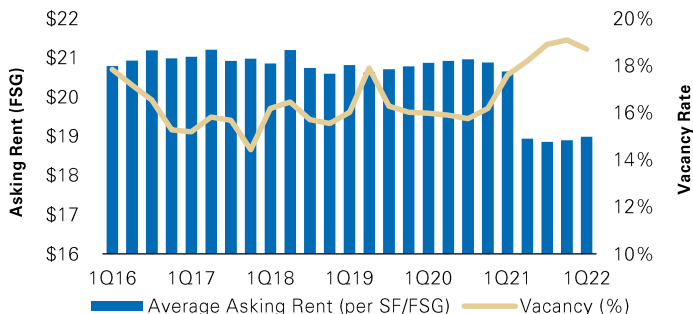
- The decrease in quarter-over-quarter vacancy is the first observed post pandemic
- Average asking rents for all classes remained fairly level from the previous quarter, increasing slightly to \$18.99 per square foot.
- Sublease volume increased 29% since last quarter, settling at 1,007,370 SF

### Market Summary

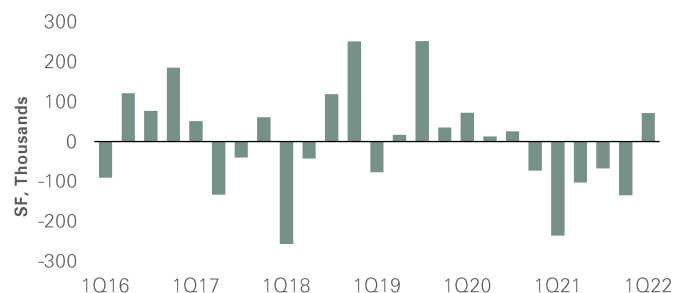
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	16.8M	16.8M	16.8M	→
Vacancy Rate	18.7%	19.1%	17.6%	↓
Quarterly Net Absorption (SF)	71,221	(134,169)	(235,208)	↑
Average Asking Rent/SF	\$18.99	\$18.90	\$20.65	→
Under Construction (SF)	0.0	0.0	0.0	→

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION



## RESEARCH Q1 2022

Some notable leases drove absorption this quarter, demonstrating long-term confidence on the part of office users. Auto Lenders leased 31,277 square feet at 101 Woodcrest Road in Cherry Hill, LeChase Construction signed for 6,000 square feet at 61 North Lakeview Drive in Gibbsboro, and Vissi leased 5,000 SF at 10000 Lincoln Drive East in Marlton. Edelman Financial Engines' lease renewal of its 4,032-square-foot office at 457 Haddonfield Road in Cherry Hill.

Increased tenant activity and larger leases are evidence that the worst has likely passed in this market, however troubling figures remain in Southern New Jersey. Sublease space surpassed one million square feet in the first quarter of 2022. The 1,007,370 square feet of sublease space is 47.7% higher than sublease levels in the first quarter of 2020. Further, 224,048 SF of sublease space was added this quarter in the Voorhees/Gibbsboro submarket, including a 146,000-square-foot space previously occupied by Comcast at the Voorhees Tech Center. The combination of direct vacant and sublease space results in an availability rate of 23.0%.

The amount of unused space is changing how owners view the best use of their property. In previous quarters, some owners with office

buildings containing large blocks of vacant space were reported to be weighing the notion of conversions to industrial or multifamily use. In the first quarter of 2022, those considerations began to materialize as the market saw its first major industrial conversion sale. Prologis purchased the office building located at 112 West Park Drive in Mount Laurel with the plan of razing the existing property to make way for a new industrial facility. Other conversion sales, similar to the Prologis acquisition, are expected in subsequent quarters. Office properties with large vacant blocks and lot acreage that are located near the New Jersey Turnpike or I-295 are the likely targets for industrial developers.

Although this quarter's positive absorption and reduction of vacant office inventory left a positive mark on the Southern New Jersey office market, this trend must be sustainable if the market is to return to pre-pandemic conditions. Office demand in Southern New Jersey is primarily driven organically, so new absorption will likely be provided by existing businesses expanding operations or reclaiming space shed over the past two years. Increased leasing activity will not be enough to reduce vacancy to landlord-friendly levels. Office to industrial or multifamily conversions will be crucial in reducing the amount of vacant space in the market.

### Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Cherry Hill	3,610,936	-	19.1%	48,047	48,047	\$23.30	\$19.43	\$20.30
Marlton	2,481,145	-	17.7%	(7,958)	(7,958)	\$24.23	\$14.84	\$18.34
Moorestown	1,047,939	-	16.3%	4,436	4,436	\$25.25	\$20.86	\$21.77
Mount Laurel	5,886,235	-	17.4%	37,555	37,555	\$19.40	\$17.05	\$17.95
Pennsauken/Camden	2,442,317	-	9.2%	9,314	9,314	\$28.60	\$15.79	\$17.92
Voorhees/Gibbsboro	1,336,748	-	44.6%	(20,175)	(20,175)	\$26.25	\$16.91	\$17.56
<b>Market</b>	<b>16,805,320</b>	<b>-</b>	<b>18.7%</b>	<b>71,221</b>	<b>71,221</b>	<b>\$21.96</b>	<b>\$17.61</b>	<b>\$18.99</b>

### Select Lease/User Transactions

Tenant	Submarket	Building	Type	Square Feet
Auto Lenders	Cherry Hill	101 Woodcrest Rd	Direct Lease	31,277
LeChase Construction	Voorhees/Gibbsboro	61 N Lakeview Dr	Direct Lease	6,000
Vissi	Marlton	10000 Lincoln Dr E	Direct Lease	5,000
Edelman Financial Engines	Cherry Hill	457 Haddonfield Rd	Renewal	4,032

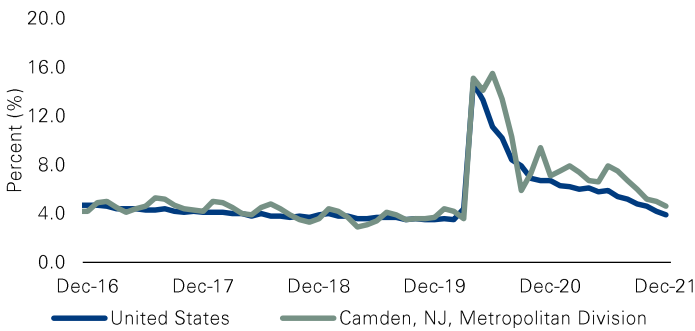
### Economic Conditions

The unemployment rate in the Camden Metro was 4.6% in December 2021. This was a 40-basis point decrease since November 2021. The 12-month change in payroll employment increased 6.1% in January 2022. In the last 12 months, the employment sectors making the biggest gains have been construction (11.1%) and leisure and hospitality (21.4%). The leisure and hospitality sector has benefitted from the ending of health restrictions as people begin to travel and dine-in again. The information sector has performed the worst since January 2021, shedding 13.1% of its jobs in that span.

Moving forward, continue to expect a gradual decrease in unemployment. The rate of employment gains will only be marginal as the labor market remains markedly tight due to a lower labor force participation rate. Multiple variables are contributing to labor force participation; expect these factors to continue in the foreseeable future.

### Unemployment Rate

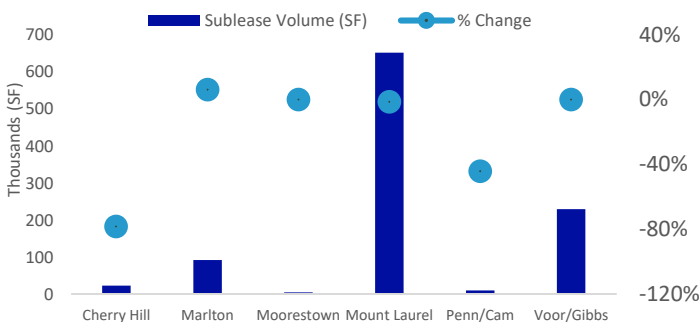
NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, March 2022.

### New Jersey Market Sublease Analysis

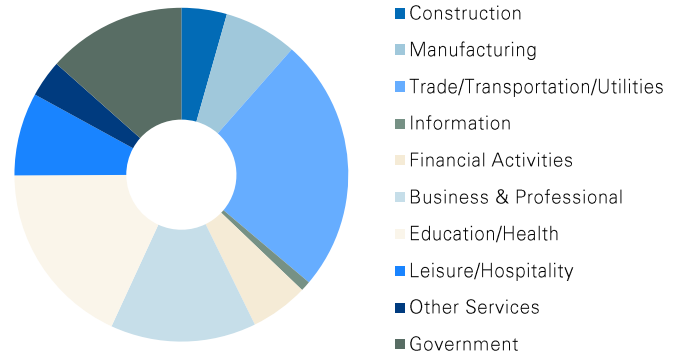
SQUARE FEET AND 12-MONTH % CHANGE, 4Q21



Source: Newmark Research, March 2022.

### Employment by Industry

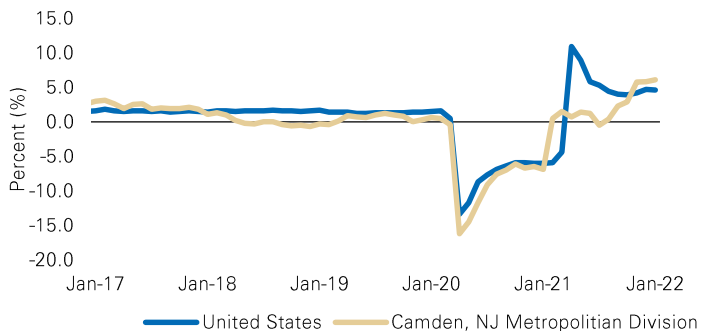
CAMDEN, NJ METROPOLITAN DIVISION, JANUARY 2022 ANNUAL AVERAGE



Source: U.S. Bureau of Labor Statistics, March 2022.

### Payroll Employment (Total Nonfarm)

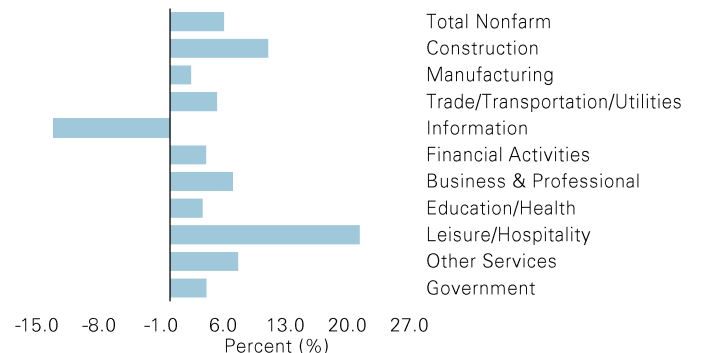
NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, March 2022.

### Employment Growth by Industry, January 2022

CAMDEN, NJ METRO DIVISION, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, March 2022.

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