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1Q24

# Southern New Jersey Office Market Overview



**NEWMARK**

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# Market Observations

## Economy

- In January 2024, Camden MSA's unemployment hit 5.0%, its peak since February 2022. This marked a 60 basis point rise from October 2023, and it stayed stable in February.
- Annual total employment growth in the Camden MSA was 2.0% in February 2024, 20 basis points higher than the nation's. The Education and Health Services and Government sectors drove employment growth.
- Late in the first quarter of 2024, local newspaper Courier Post announced it would lay off 139 workers and close its printing plant in Cherry Hill. According to the State of New Jersey, this was the largest layoff in Southern New Jersey in the first quarter of 2024.

## Major Transactions

- Quality leasing activity in the Marlton submarket occurred in the first quarter of 2024. Duane Morris leased 11,879 square feet at 40 Lake Center Drive, and Stark & Stark renewed its 10,965-square-foot lease at the same building.
- The first quarter of 2024 saw smaller lease transactions, with an average lease size of just 3,470 square feet, according to data from CoStar and Newmark. Despite this, there's an expectation for larger leases in the near term, as the current average space requirement stands at 13,079 square feet.

## Leasing Market Fundamentals

- In Q1 2024, the market saw a net decrease in occupancy with absorption totaling -22,386 square feet, with the decline predominantly in Class B and Class C offices, recording -7,977 and -15,334 square feet, respectively.
- Rents continue to edge higher, although the pace of growth is beginning to flatline. The market average in the first quarter of 2024 was \$22.10/SF, marking a 20 basis point increase from the previous quarter. This growth is modest compared to the fourth and first quarters of 2023, which saw quarter-over-quarter rent increases of 0.5% and 2.4%, respectively.
- In the first quarter of 2024, office demand declined due to lease signings. However, this is expected to enhance absorption rates in the future.

## Outlook

- The anticipated relocation of Berkley Insurance Company from Mount Laurel to the Moorestown submarket in the second quarter of 2024 is expected to change occupancy dynamics in Southern New Jersey significantly. By occupying its new 52,785-square-foot office at 232 Strawbridge Drive, the move will eliminate 17% of the vacant inventory of the Moorestown submarket but will result in an additional 70,734 square feet of vacant space in Mount Laurel. Although this represents a net increase in vacant space, the overall impact on the Southern New Jersey market should be minimal. With a vacancy rate of 16.1%—only 30 basis points higher than the market's 20-year average—the market's vacancy rate remains manageable.

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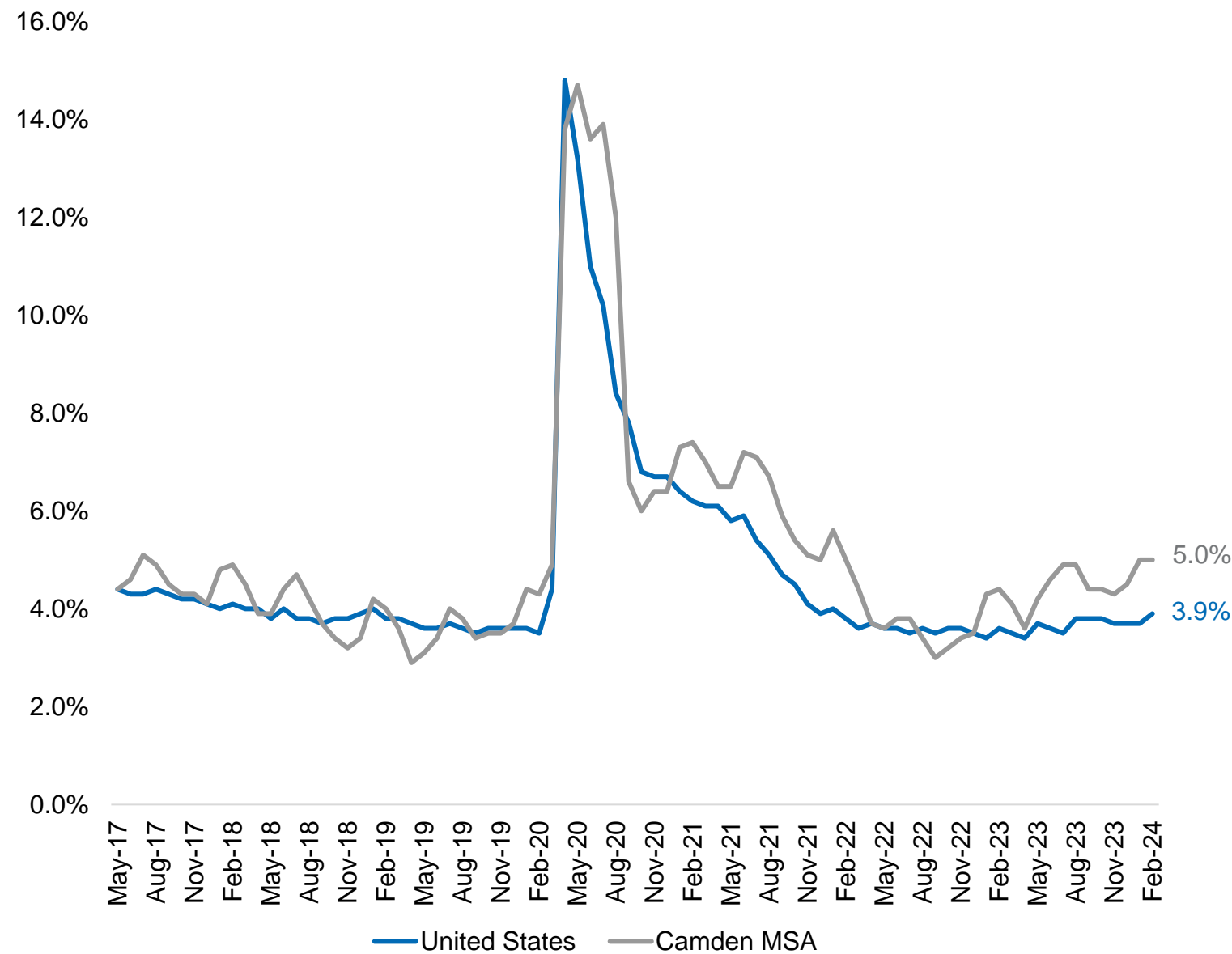
# Economy



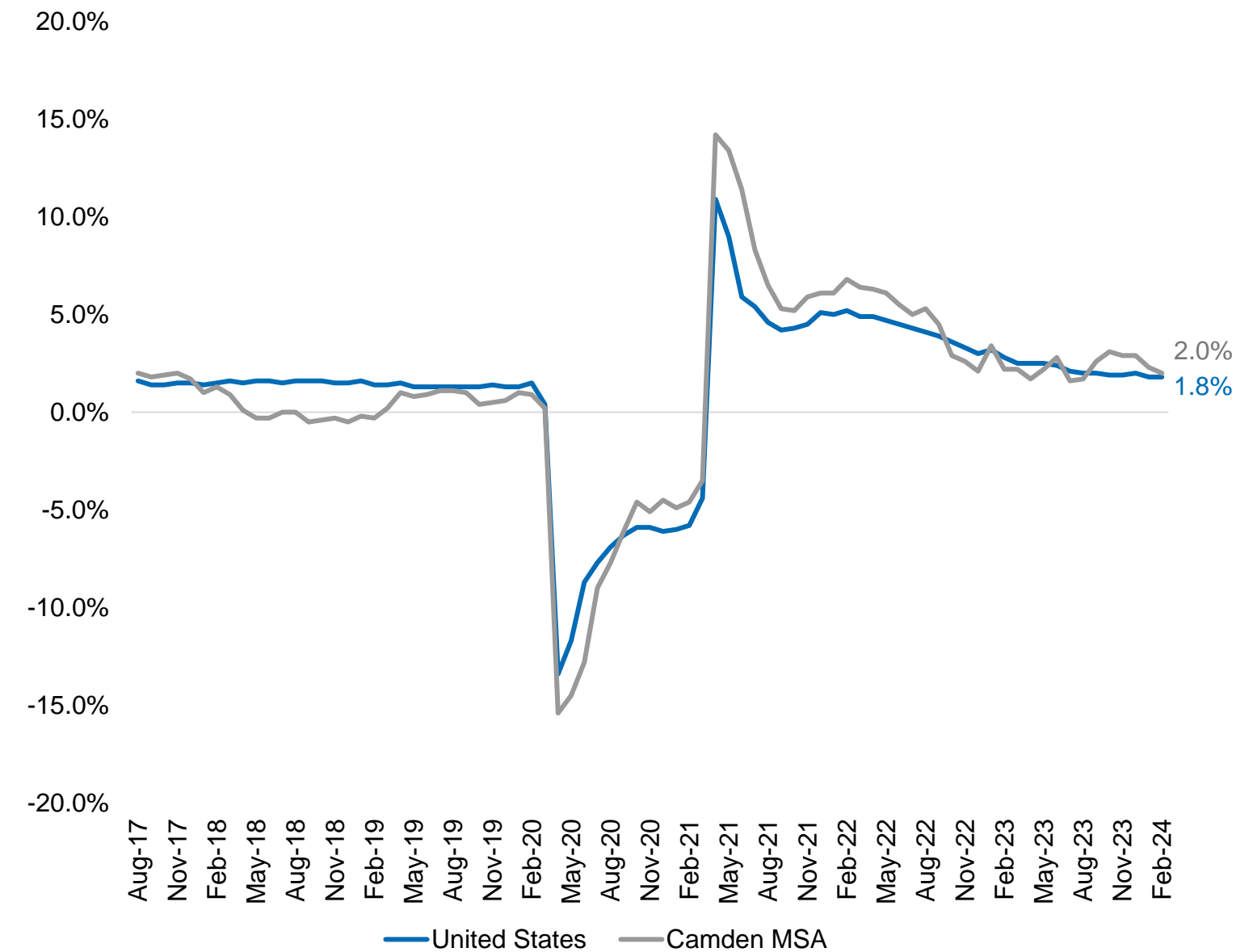
# Unemployment Edges Higher But Employment Growth Remains Strong

Between November 2023 and February 2024, the unemployment rate in the Camden MSA increased by 70 basis points to reach 5.0%, its highest level since February 2022. The Trade, Transportation, and Utilities sector experienced the most significant job losses, shedding 4.5% of its jobs during this period. However, vigorous hiring within the Education and Health Services and Government sectors contributed to overall annual employment growth. Total employment in the Camden MSA is now 2.0% higher than it was a year ago, marking the sixth consecutive month that Camden has surpassed the national average in annual job gains.

**Unemployment Rate, Seasonally Adjusted**



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

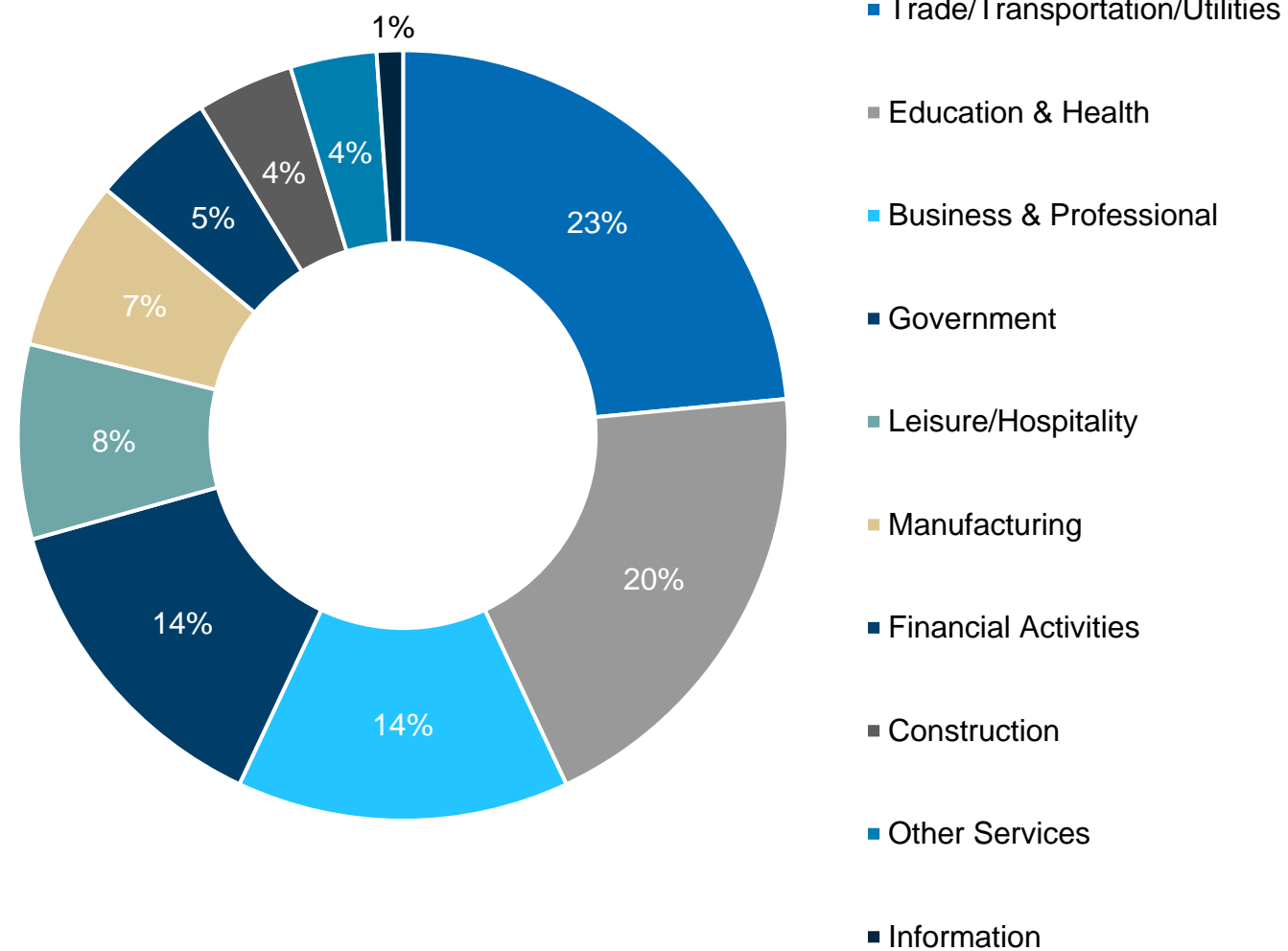


Source: U.S. Bureau of Labor Statistics, Camden Metro Division

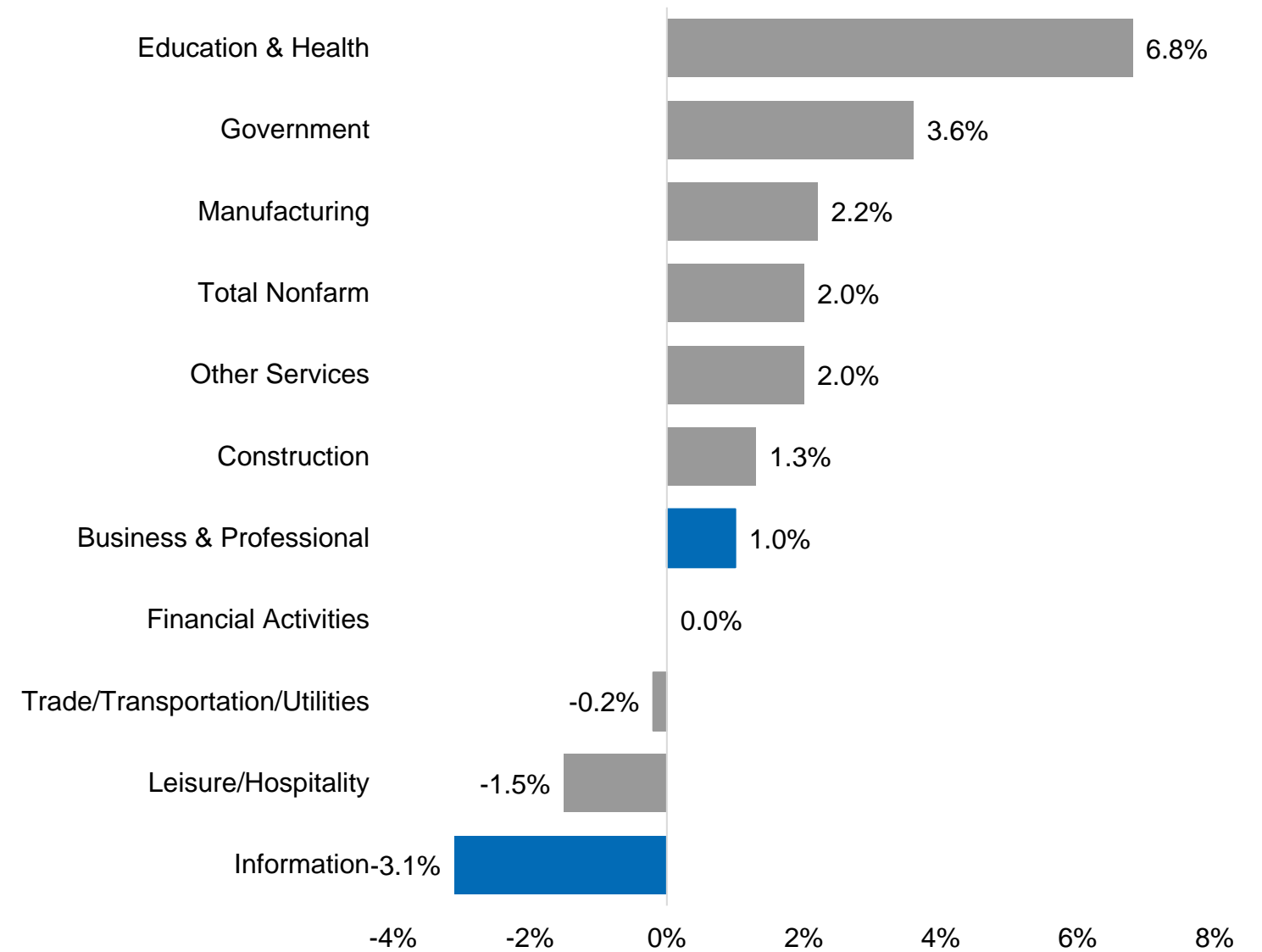
# Job Growth Driven By Southern New Jersey's Largest Industries

In February 2024, job gains in Southern New Jersey were driven by the Education and Health Services and Government sectors, which collectively employ one-third of the Camden MSA's labor force.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

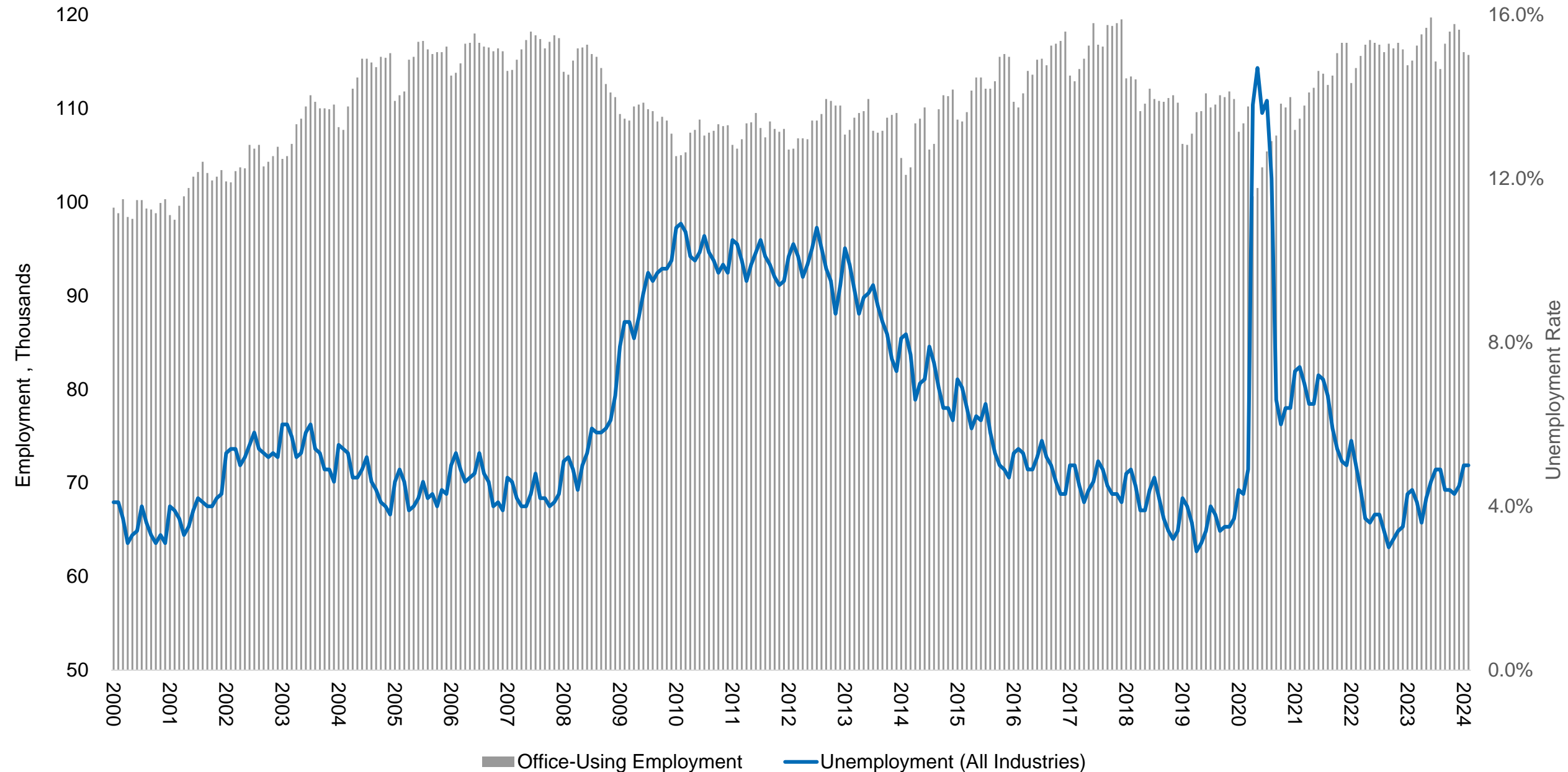


Source: U.S. Bureau of Labor Statistics, Camden Metro Division

# Office-Using Employment Grows in Southern New Jersey

Office-using employment in the Camden MSA totaled approximately 115,700 jobs in February. Only 4,000 jobs below the record set in June 2023. While office-using employment has retreated from its recent highs, job growth in this category is still growing annually and is up 0.5% from the prior year.

## Office-Using Employment\* and Unemployment Across All Industries



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

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

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# Leasing Market Fundamentals

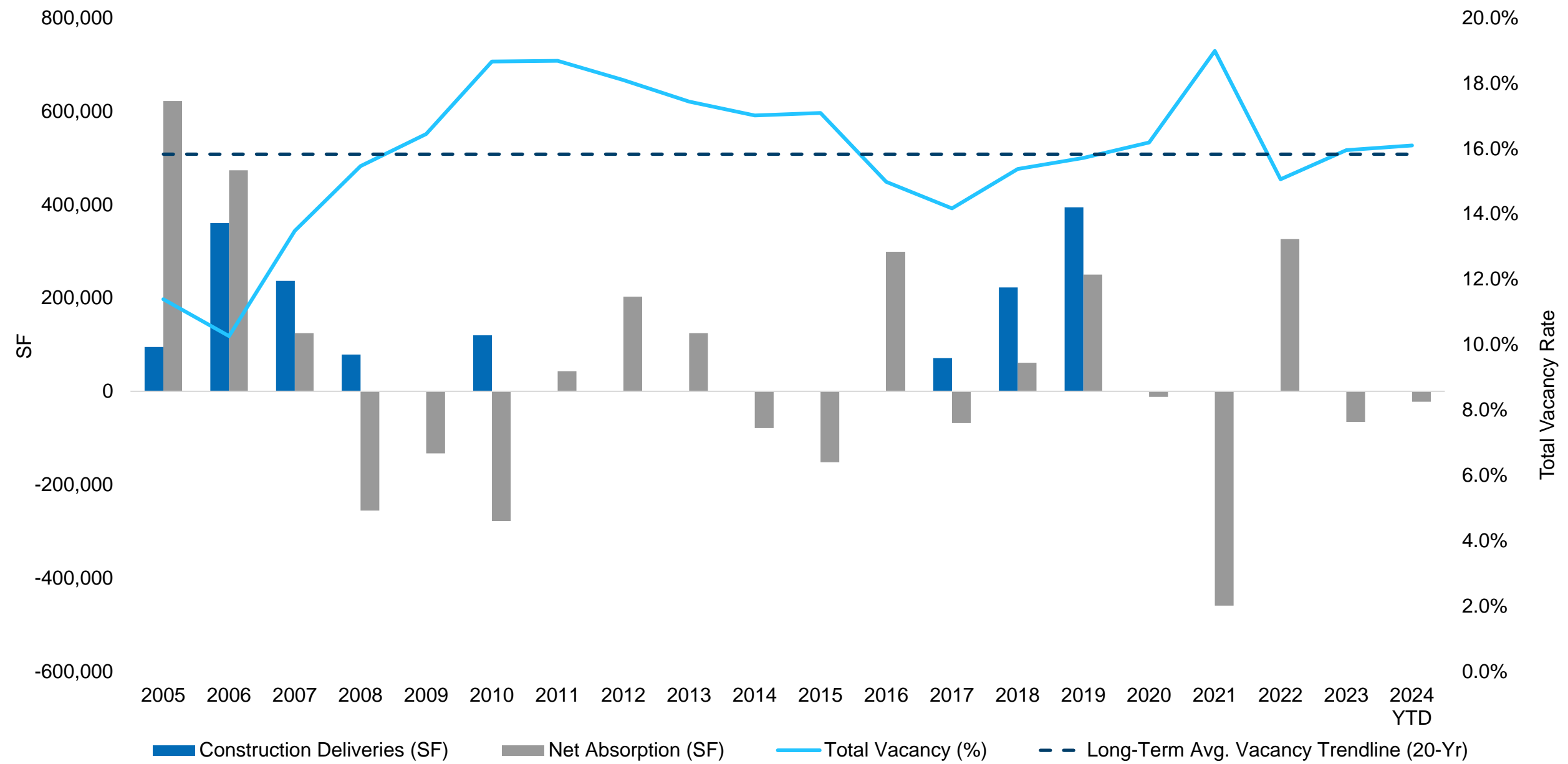




# Vacancy Edges Higher But Shows Signs Of Stabilization

Occupancy declines in Class B and Class C offices led to a minor increase in vacancy rates in the first quarter of 2024. The year-to-date vacancy rate stood at 16.1%, registering a slight rise of 10 basis points from the previous quarter and 100 basis points from the year before. While vacancy increases have been observed across all asset classes, Class B and Class C grade properties have suffered the most occupancy losses. In the past four quarters, absorption for Class B and Class C offices is -105,729 square feet, compared to Class A, which has -56,756 square feet of absorption.

Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

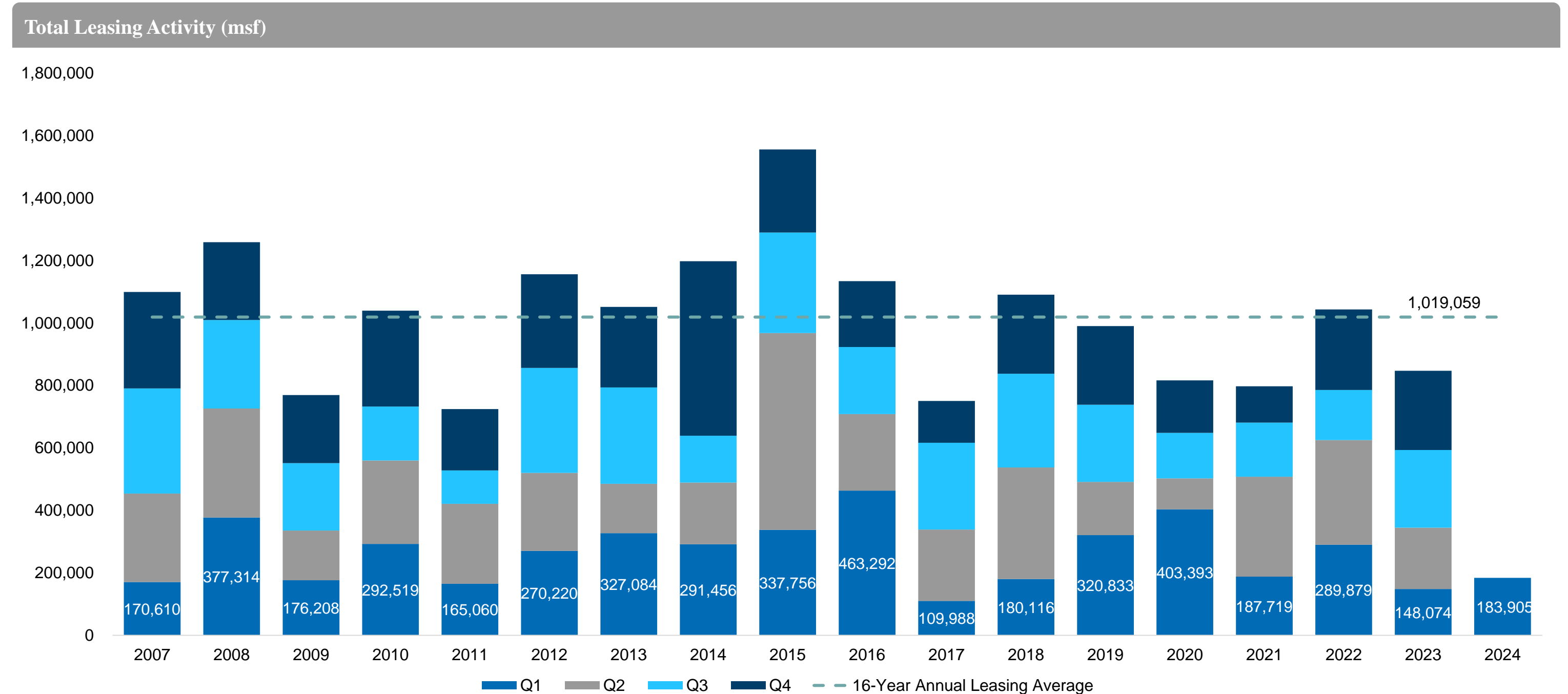
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## Class A Offices Continue To Outperform The Broader Market

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# Leasing Volumes Are Modest But Activity Was Strong

In the first quarter of 2024, leasing volume was 183,905 square feet, 15% lower than the 2020-present average. Even with lower leasing volumes, activity remained healthy. According to leasing data from CoStar and Newmark, there were approximately 53 leases signed in the first quarter, each of which had an average size of 3,470 square feet. The absence of significant transactions, like the Berkley Insurance Company lease from the previous quarter, resulted in overall volumes dipping below historical averages.

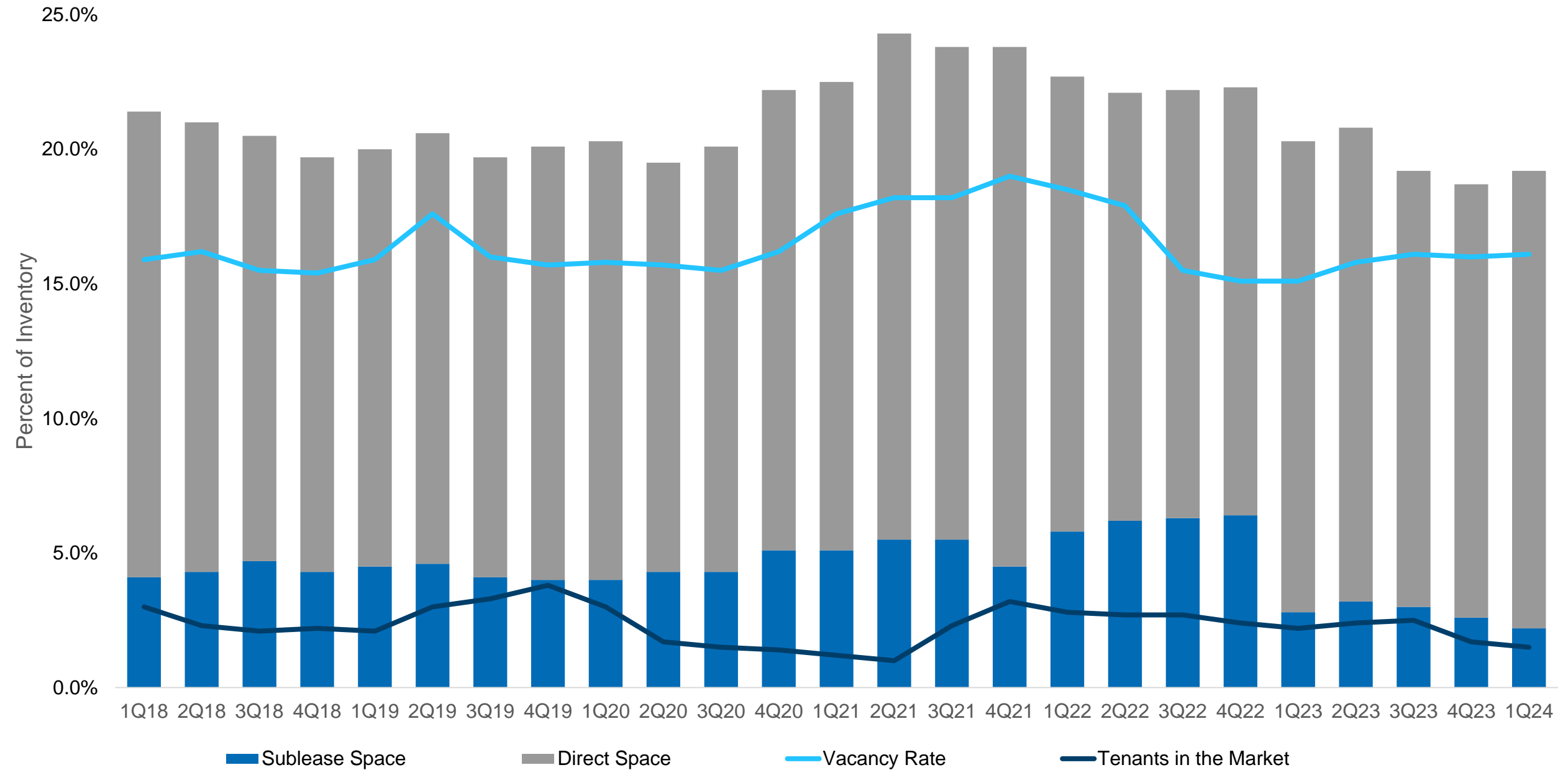


Source: Newmark Research, CoStar

# Active User Demand Translates To Signed Leases In The First Quarter

With many tenants signing leases in the first quarter of 2024, the overall demand for space decreased. At the end of the first quarter, total demand as a percentage of inventory was 1.5%, 20 basis points lower than the previous quarter. While demand has recently declined, new leases will translate into positive absorption later in the year.

Available Space and Tenant Demand as Percent of Overall Market

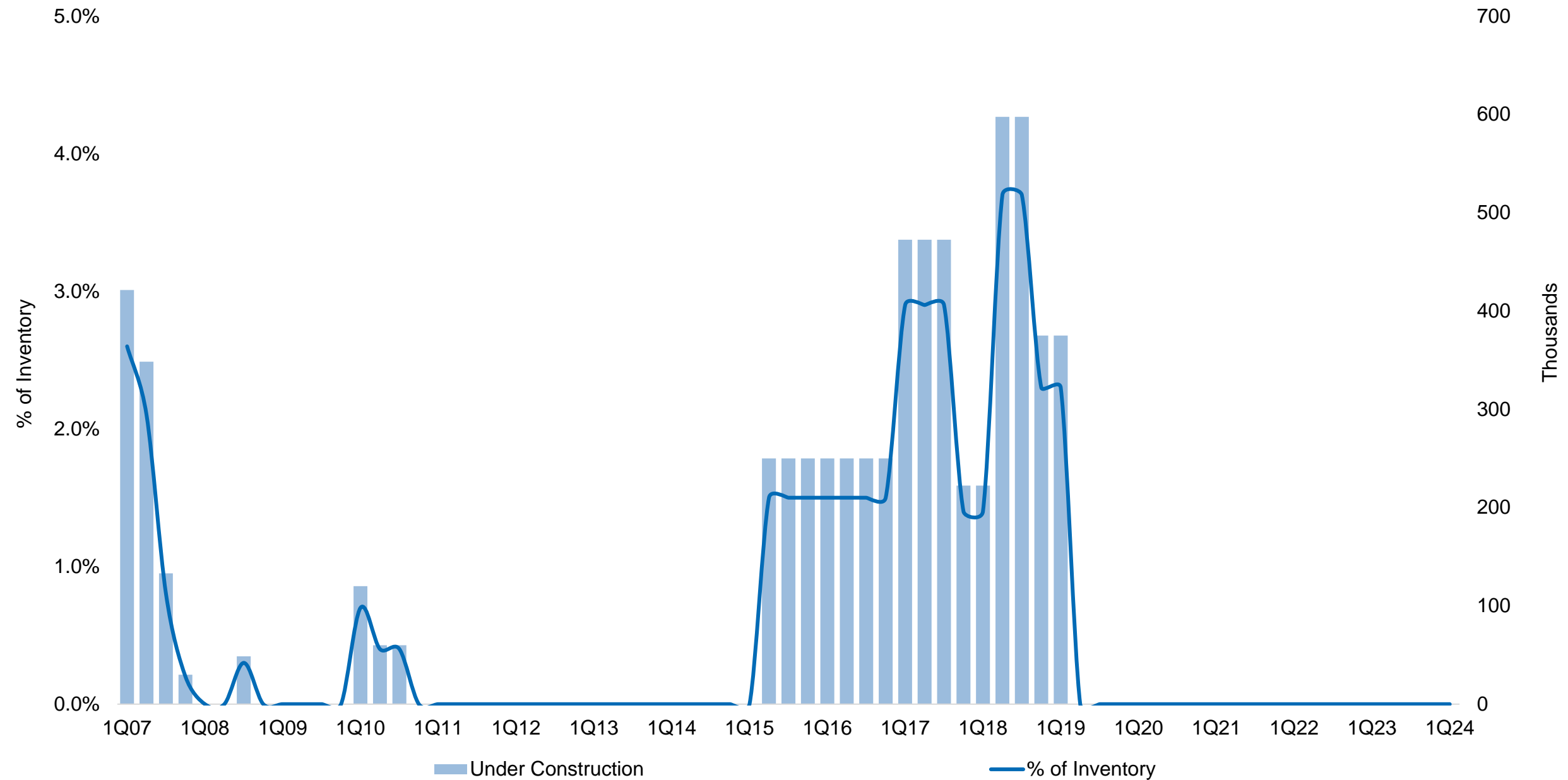


Source: Newmark Research

# A Non-Existent Pipeline Provides Benefits To The Market

The last major delivery in Southern New Jersey was at 2 Cooper Street in Camden in 2019, and the current lack of a pipeline is benefiting the market. For new development to be feasible, demand needs to be strong enough to absorb an additional 200,000-300,000 square feet. Additionally, further right-sizing and the removal of obsolete spaces are necessary prerequisites for development.

## Office Under Construction and % of Inventory

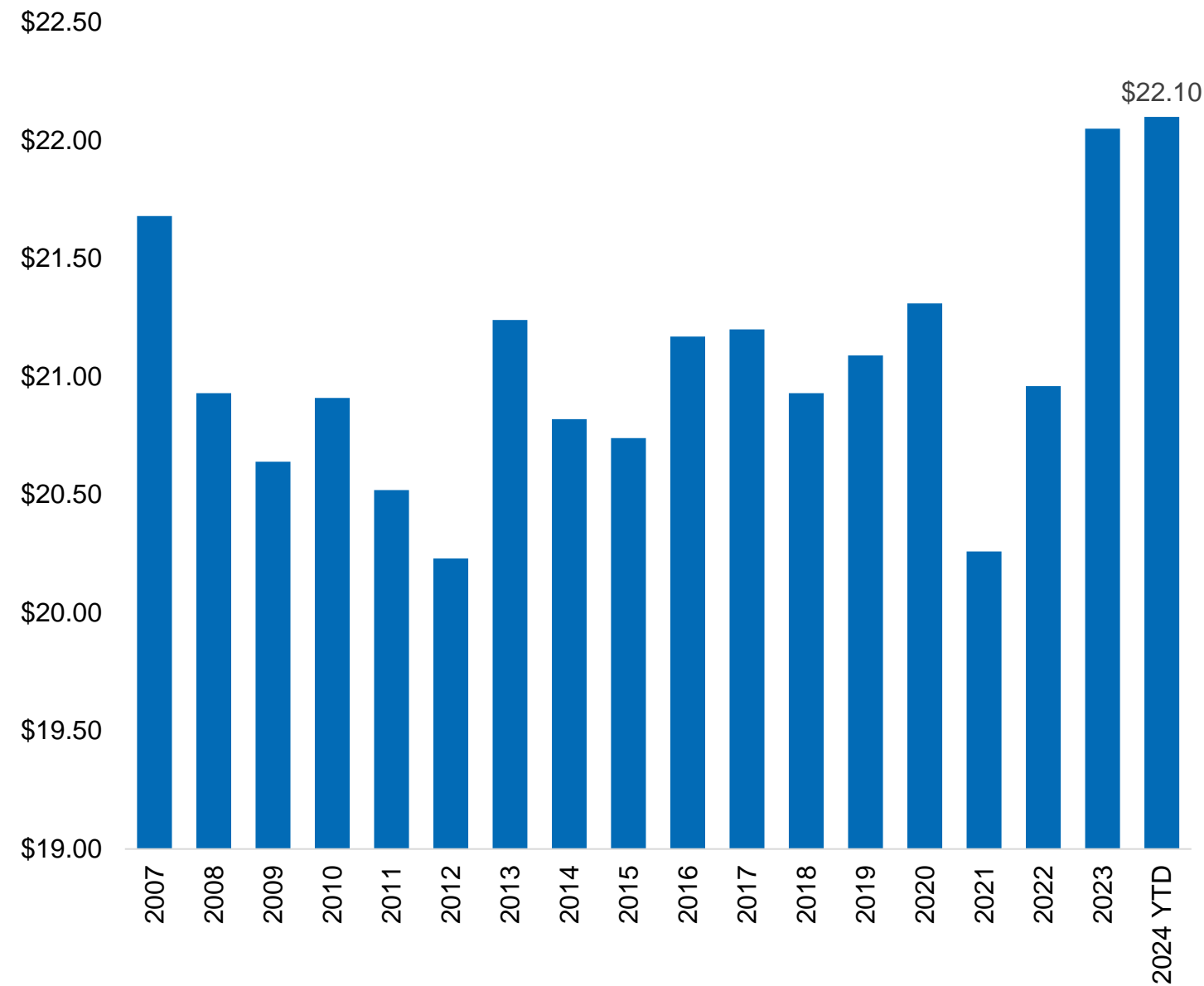


Source: Newmark Research, CoStar

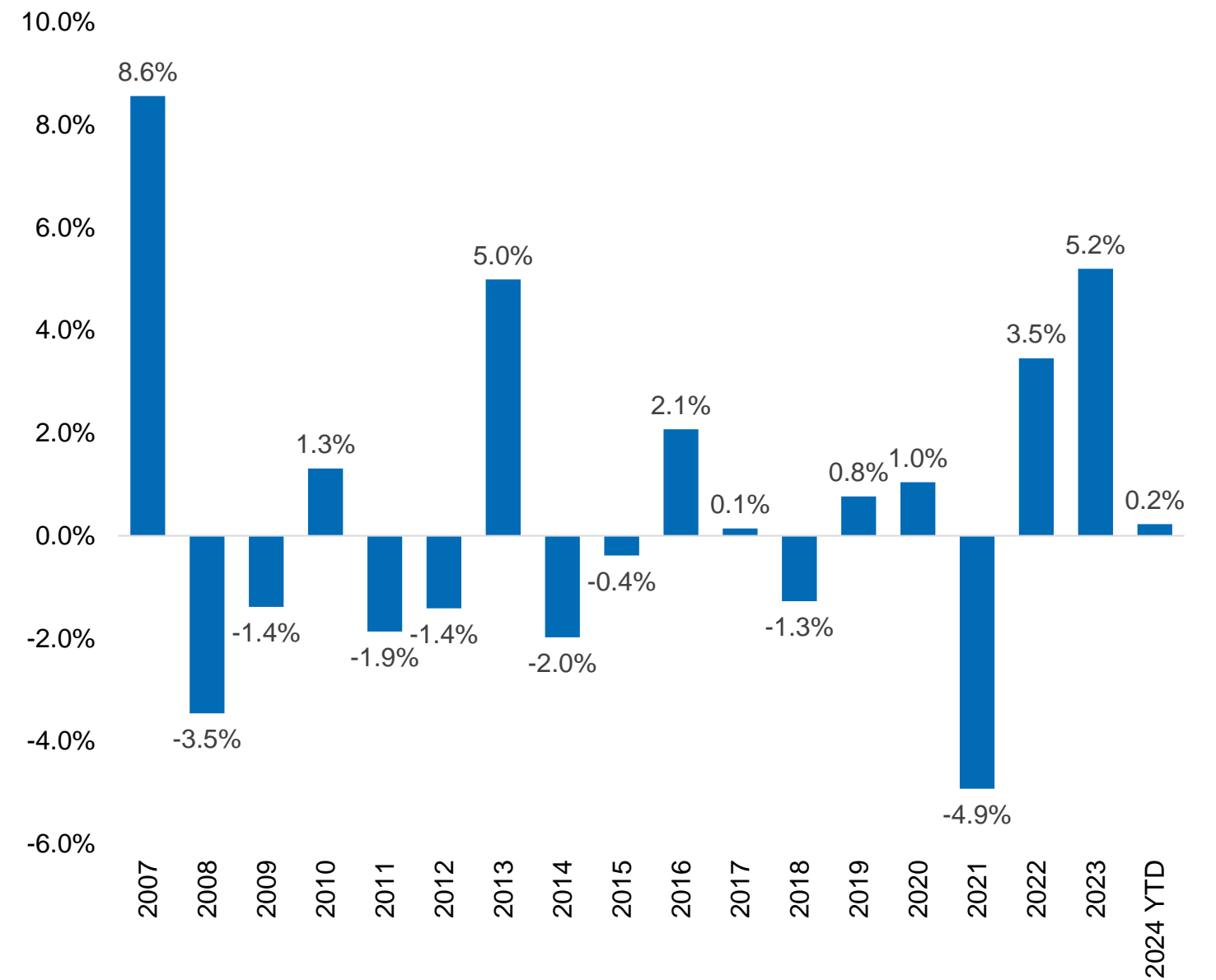
# Rents Climb Upward But Moderation Is Evident

Average rents in Southern New Jersey have fully recovered and currently exceed pre-2020 levels due to substantial year-over-year increases in 2022 and 2023. Still, current evidence suggests rent growth is beginning to flatline. The year-to-date average rent is \$22.10/SF, only 0.2% from the previous quarter. This is the lowest quarter-over-quarter increase since the second quarter of 2022.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate



Source: Newmark Research

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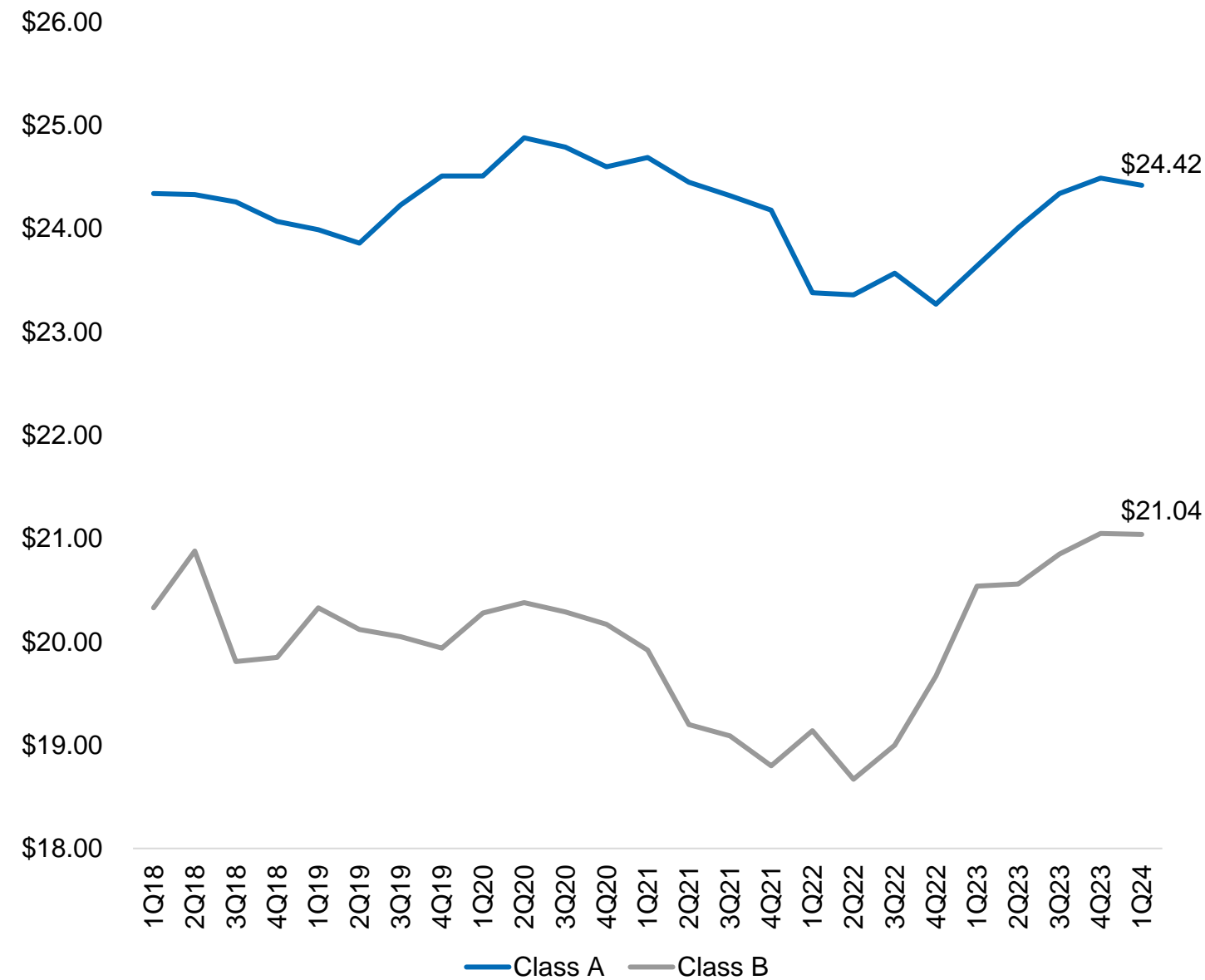
## The Pace Of Asking Rate Increases Have Slowed

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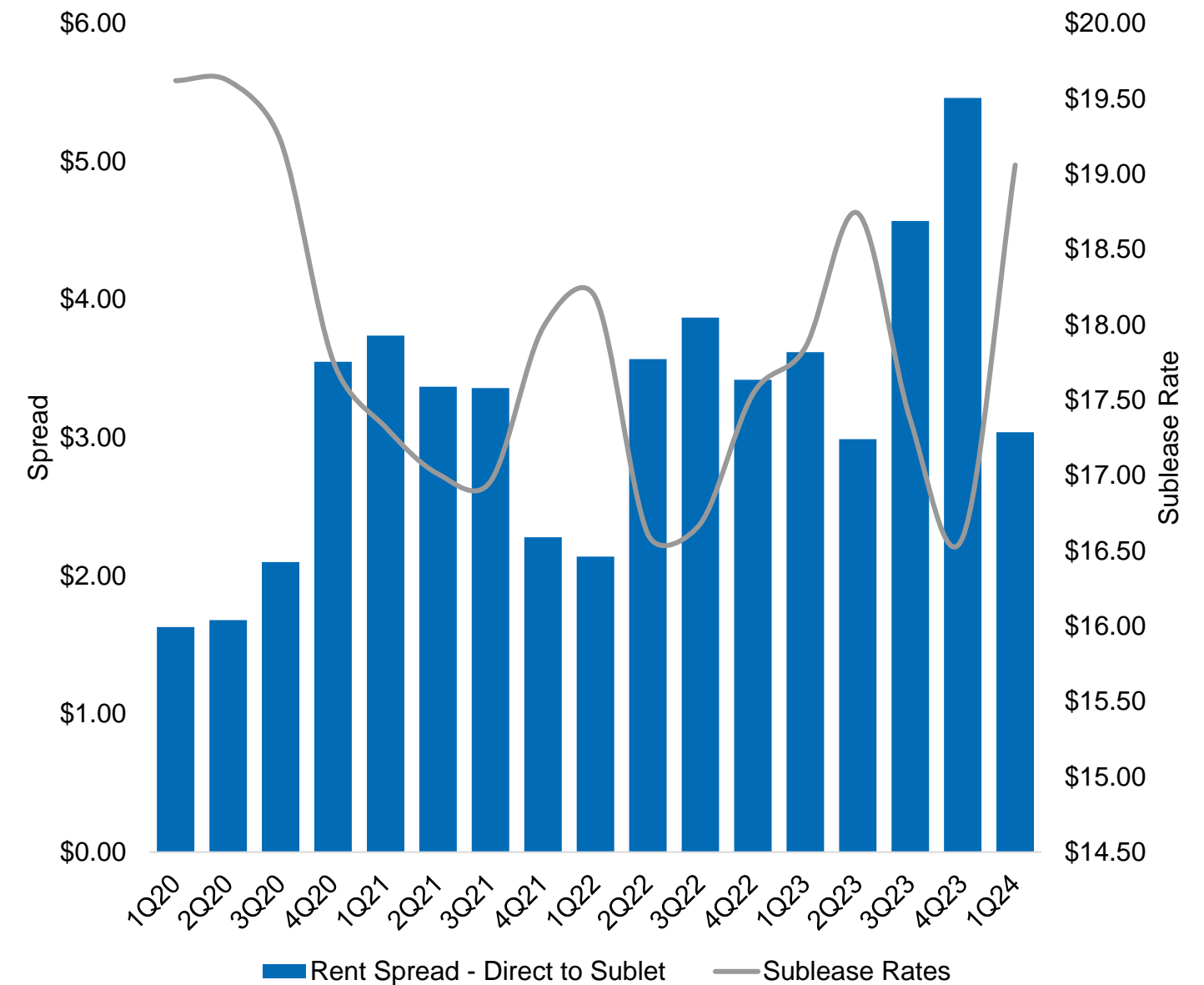
# Class B Asking Rents Stabilize After Multiple Quarters Of Strong Growth

Class B rents were virtually unchanged from the previous quarter in the first quarter of 2024 and remain elevated compared to historical averages. Class A averages posted a \$0.07/SF decline from the prior quarter but are 3.3% higher year-over-year.

**Class A and Class B Asking Rents**



**Sublease Rates**



Source: Newmark Research, CoStar



# Leasing Activity Is Strong For Smaller Tenants

Lease sizes trended smaller in the first quarter of 2024, with the average size being 3,470 square feet. Marlton, one of the premier submarkets of Southern New Jersey, captured the largest leases of the quarter.

## Notable 1Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Duane Morris LLP	40 Lake Center Drive	Marlton	Direct Lease	11,879
Stark & Stark	40 Lake Center Drive	Marlton	Lease Renewal	10,965
Weitz & Luxembourg	220 Lake Drive E	Cherry Hill	Lease Renewal	10,000
Fox & Roach LP	41 S Haddon Avenue	Cherry Hill	Lease Expansion	9,411
Freedom Mortgage Corporation	2000 Crawford Place	Mount Laurel	Lease Expansion	6,390

Source: Newmark Research, CoStar

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# Appendix



# Submarket Overview

## Submarket Statistics – All Classes

	Total Inventory (SF)	Total Vacancy Rate	Total Available (SF)	Sublease Available (SF)	Total Availability Rate	Qtr Net Absorption (SF)	Total FS Asking Rent (Price/SF)
Cherry Hill	3,444,194	18.2%	821,531	108,853	23.9%	-37,462	\$22.55
Marlton	2,236,409	14.5%	386,458	56,260	17.3%	4,249	\$22.69
Moorestown	1,047,939	29.7%	265,733	13,285	25.4%	19,834	\$23.36
Mount Laurel	5,348,688	12.9%	992,280	146,073	18.6%	-5,520	\$21.76
Pennsauken/Camden	2,442,317	10.3%	199,135	12,607	8.2%	-9,617	\$19.96
Voorhees/Gibbsboro	1,352,533	25.9%	383,099	16,000	28.3%	6,130	\$21.66
<b>Southern New Jersey</b>	<b>15,872,080</b>	<b>16.1%</b>	<b>3,048,236</b>	<b>353,078</b>	<b>19.2%</b>	<b>-22,386</b>	<b>\$22.10</b>

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