



Southern New Jersey Office Market

Some Q3 Trends Carry Over to Q4, but Sublease Space Declines

The Southern New Jersey office market finished the calendar year with mostly encouraging results. Despite evolving health and safety concerns, tenants now possess a firmer understanding of their real estate needs. Consequently, we are seeing tenants make longer term new lease and renewal commitments to lock in high quality space at better than pre-COVID rates. Some larger tenants are making plans to hire new employees in 2022 but it is still unclear what affect the Omicron COVID-19 variant will have on efforts to re-board current employees. Some office trends from the third quarter of 2021 remain; landlords are still offering larger concessions than usual and rental rates remain stable.

The market's vacancy rate in the fourth quarter is 19.1%, a 20- and 320-basis-point increase compared to last quarter and 4Q20, respectively. This increase in vacancy is not reflective of the entire Southern New Jersey office market, as each submarket recorded positive absorption, except Voorhees/Gibbsboro. Comcast completely vacated its 208,000 square foot building at the Voorhees Tech Center, contributing heavily to the negative quarterly absorption of 134,169 square feet in Southern New Jersey. This was 67,244 square feet greater than last quarter's negative net absorption. The annual absorption figure was negative 491,913 square feet at the end of this quarter. Sublease space decreased by 18.2%, and rental rates nudged \$0.04/SF higher since last quarter.

Current Conditions

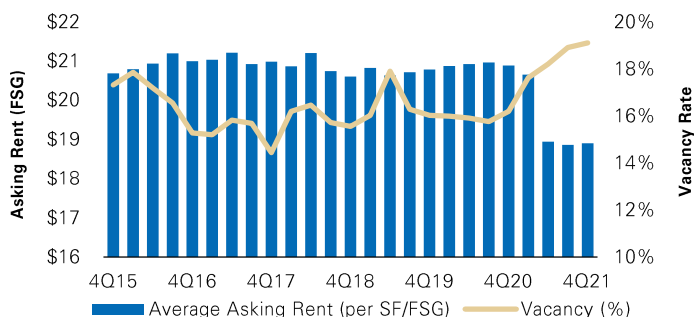
- Vacancy increased by 20 basis points since 3Q21, settling at 19.1% to end the calendar year.
- Average asking rents for all classes remained fairly level from the previous quarter, increasing slightly to \$18.90 per-square-foot.
- Sublease volume decreased to 780,198 SF, decreasing 18% since last quarter.

Market Summary

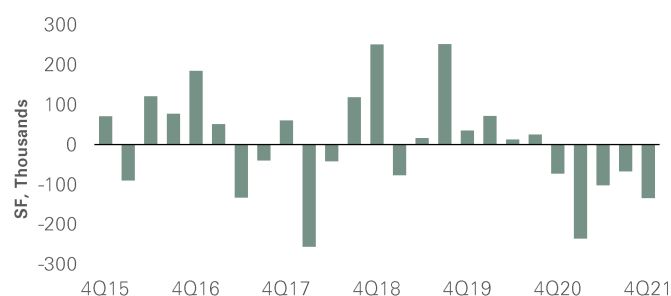
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	16.8M	16.8M	16.8M	→
Vacancy Rate	19.1%	18.9%	15.9%	↑
Quarterly Net Absorption (SF)	(134,169)	(66,945)	(85,304)	↑
Average Asking Rent/SF	\$18.90	\$18.96	\$20.88	→
Under Construction (SF)	0.0	0.0	0.0	→

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH Q4 2021

Leasing activity increased to a degree in the fourth quarter. EMT Solar Roofing leased 11,088 square feet at 523 Hollywood Avenue in Cherry Hill, New Jersey Education Association signed for 9,564 square feet at 15000 Commerce Parkway in Mount Laurel, Navitas Credit Corp expanded to 7,067 square feet at 303 Fellowship Road in Mount Laurel and NJ Economic Development Authority relocated and expanded to 4,636 square feet at 2 Riverside Drive in Camden.

The Southern New Jersey office market ended the year with lackluster metrics, but some optimism for early 2022 is warranted given the already noted increase in leasing activity coupled with a decrease in the volume of sublease space being introduced to the market. Historically low rental rates are not expected to decrease in early 2022, as Landlords cannot justify further reductions to lenders. However, landlords have the ability to be generous with other concessions.

COVID-19 and the new Omicron have the potential to alter the positive picture we see for early 2022. Rapidly increasing case

counts could convince employers to extend work-from-home arrangements and defer real estate decisions later into the year.

With vacancy rates at concerning highs, landlords are thinking creatively about how to fill empty space. New industries like cannabis could backfill some of it; however, the licensing and legal hurdles necessary to operate that type of business could limit the number of players. Also, demand for industrial space remains at all-time highs, forcing certain owners to consider razing or converting their office properties to industrial use. If these trends do occur, activity will likely be concentrated along the I-295 Corridor. Multi-family housing conversions are another possibility. This trend is less likely than industrial conversion as most office stock in Southern New Jersey are single-story buildings, not conducive to multifamily use. Any type of office space conversion would reduce the office supply and relieve some pressure landlords are now experiencing.

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	-	20.4%	14,379	-71,300	\$23.32	\$20.03	\$20.38
Marlton	2,481,145	-	17.4%	14,729	40,646	\$24.91	\$15.12	\$18.60
Moorestown	1,047,939	-	16.7%	8,363	34,269	\$25.25	\$20.15	\$21.56
Mount Laurel	5,886,235	-	18.1%	25,496	189,820	\$20.14	\$16.20	\$17.72
Pennsauken/Camden	2,442,317	-	9.6%	1,467	5,225	\$28.16	\$15.79	\$18.26
Voorhees/Gibbsboro	1,336,748	-	43.1%	-203,079	-310,933	\$26.25	\$17.11	\$17.70
Market	16,805,320	-	19.1%	-134,169	-491,913	\$22.47	\$17.41	\$18.90

Select Lease/User Transactions

Tenant	Submarket	Building	Type	Square Feet
EMT Solar Roofing	Cherry Hill	523 Hollywood Ave	New Lease	11,088
NJ Education Association	Mount Laurel	15000 Commerce Parkway	New Lease	9,564
Navitas Credit Corp	Mount Laurel	303 Fellowship Road	Lease Expansion	7,067
NJ Economic Development Authority	Pennsauken/Camden	2 Riverside	Lease Extension	4,636

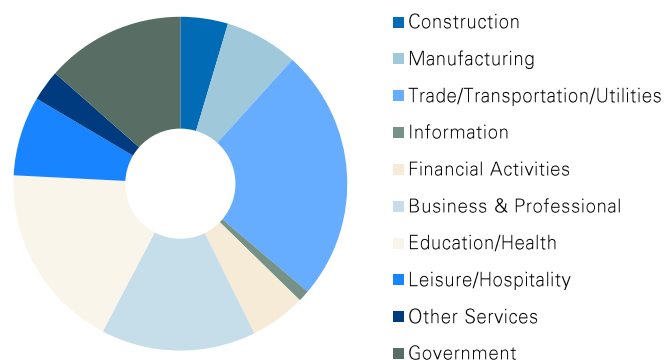
Economic Conditions

The unemployment rate for the Camden Metro declined from 6.9% to 5.2% from August to October. Payroll employment increased by 2.9% in October. A year ago, it decreased by 6.1%. Professional business services (+12.0%) and construction (+10.4%) were leaders in payroll employment growth. A robust business service sector is a good sign for future office absorption. The information sector (-7.7%) was the worst-performing industry in the fourth quarter.

The economic outlook going into 2022 remains positive regarding employment. Businesses remain desperate for labor, which will further decrease unemployment. The rate of hiring is still to be determined, given lower-than-usual labor force participation rates. Office space could be in greater demand in the future as companies continue to grow. Expect unemployment rates to slightly decrease in early 2022.

Employment by Industry

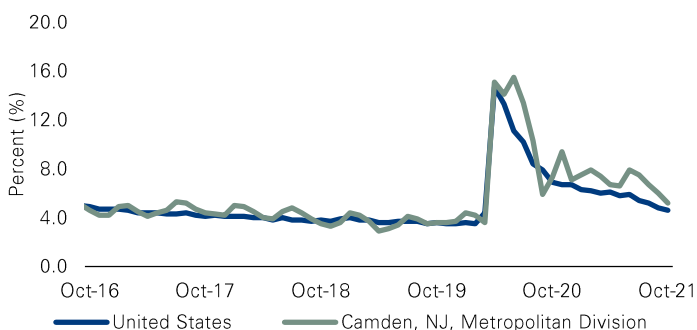
CAMDEN, NJ METROPOLITAN DIVISION, 2021 ANNUAL AVERAGE



Source: U.S. Bureau of Labor Statistics, December 2021.

Unemployment Rate

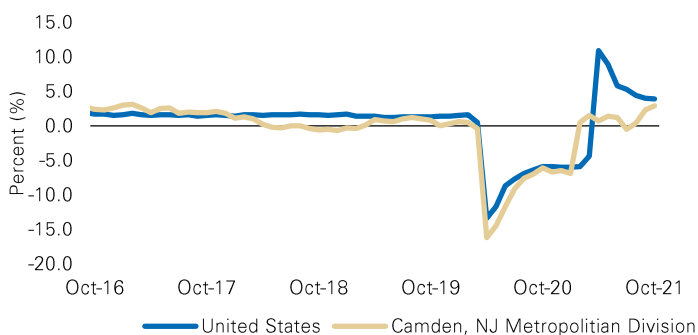
NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics, December 2021.

Payroll Employment (Total Nonfarm)

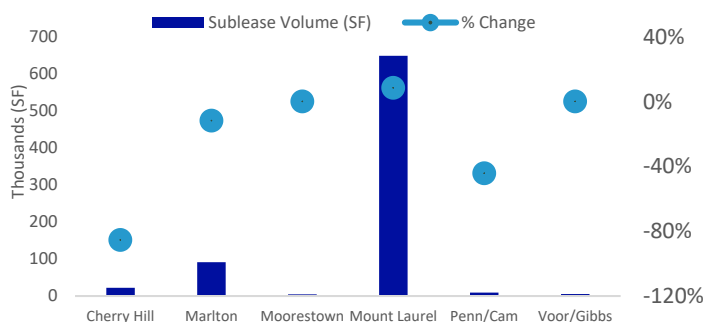
NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, December 2021.

New Jersey Market Sublease Analysis

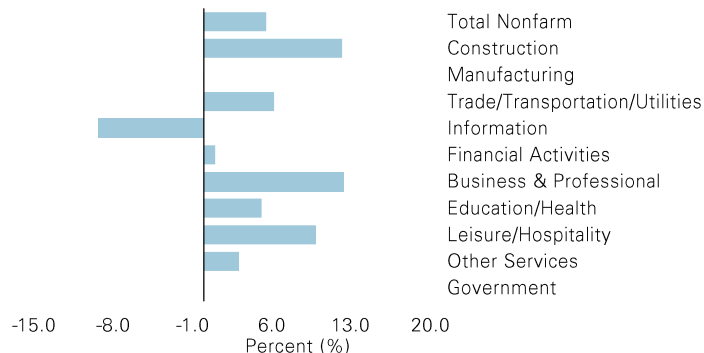
SQUARE FEET AND 12-MONTH % CHANGE, 4Q21



Source: Newmark Research, December 2021.

Employment Growth by Industry, October 2021

CAMDEN, NJ METRO DIVISION, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics, December 2021.

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