
4Q24

Southern New Jersey Office Market Overview



NEWMARK

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Market Observations

Economy

- The Greater Philadelphia economy saw a slight increase in unemployment for the 12 months ending in November, which is 50 basis points above the national unemployment rate. Annual nonfarm payroll employment increased by 120 basis points in the 12 months ending in November 2024.
- Employment in the Camden metropolitan division, within the Philadelphia MSA that consists of Burlington County, Camden County, and Gloucester County, has increased by 60 basis points over the past 12 months ending in November.
- In November 2024, the annual percentage change in office-using employment was -0.3%. Though office-using employment was negative, this decline happened after an increase in office-using employment for four months straight between June and September. Total office-using employment was approximately 782,500, a slight decrease of 2,100 jobs from the prior year.

Major Transactions

- Though the average square feet for leases signed this year was 3,149 square feet, we saw a few of the largest deals signed in the fourth quarter of 2024. For example, Health Trax and Fidelity Investments signed for 39,876 SF and 30,887 SF in Gloucester County and Cherry Hill, respectively.
- Medical office demand and transactions continue to grow. For example, 204 Grove Avenue sold for \$5,375,000 at a 7.7% cap rate. Also, over 16,000 SF of medical office space was signed in the fourth quarter of 2024. We expect continued growing demand for medical office into 2025, as the average age in our country continues to increase in tandem with an increase in sentiment towards out patient care.

Leasing Market Fundamentals

- In the fourth quarter of 2024, the market experienced a slight decline in occupancy, dropping by 0.3% from the previous quarter. Overall absorption was negative 57,155 square feet. This decrease was primarily seen in older buildings constructed before the 21st century. In contrast, modern buildings built in the 21st century recorded a positive quarterly absorption of 263 square feet.
- At the beginning of 2024, the average asking rent in Southern New Jersey reached a record high of \$22.09 per square foot. By the end of the year, this figure remained relatively stable, decreasing only slightly to \$22.04 per square foot. After experiencing seven consecutive quarters of positive rent growth from the third quarter of 2022 to the first quarter of 2024, the trend moderated during the second and third quarters of 2024, with quarter declines of -0.1% and -0.7%, respectively. However, rents have since seen a quarterly increase of 0.6%, bringing the average to just \$0.05 below the all-time high.
- At the end of the fourth quarter, total tenant demand as a percentage of inventory was 1.7%, 10 basis points above the previous quarter.

Outlook

- The last major delivery in Southern New Jersey occurred in 2019. The current absence of new pipeline development is benefiting the market and is directly linked to the stable vacancy rates seen over the past two years. Since the third quarter of 2022, vacancy rates have remained within 100 basis points of the long-term average of 15.6%. In the fourth quarter, the vacancy rate stood at 15.6%, consistent with the rates observed over the previous two years.
- Although demand has begun to moderate and lease sizes have decreased through 2024, the growing support for a 5-day work week—evident in the practices of Chase and JP Morgan—offers some promising indicators for a potential increase in office demand through 2025.
- Average rents in Southern New Jersey have fully recovered and now exceed pre-2020 levels, thanks to significant year-over-year increases in 2022 and 2023. Still, current evidence indicates that rent growth is beginning to moderate. Over the past four quarters, asking rents have shown minimal movement, remaining within \$0.12 of the average for 2024.

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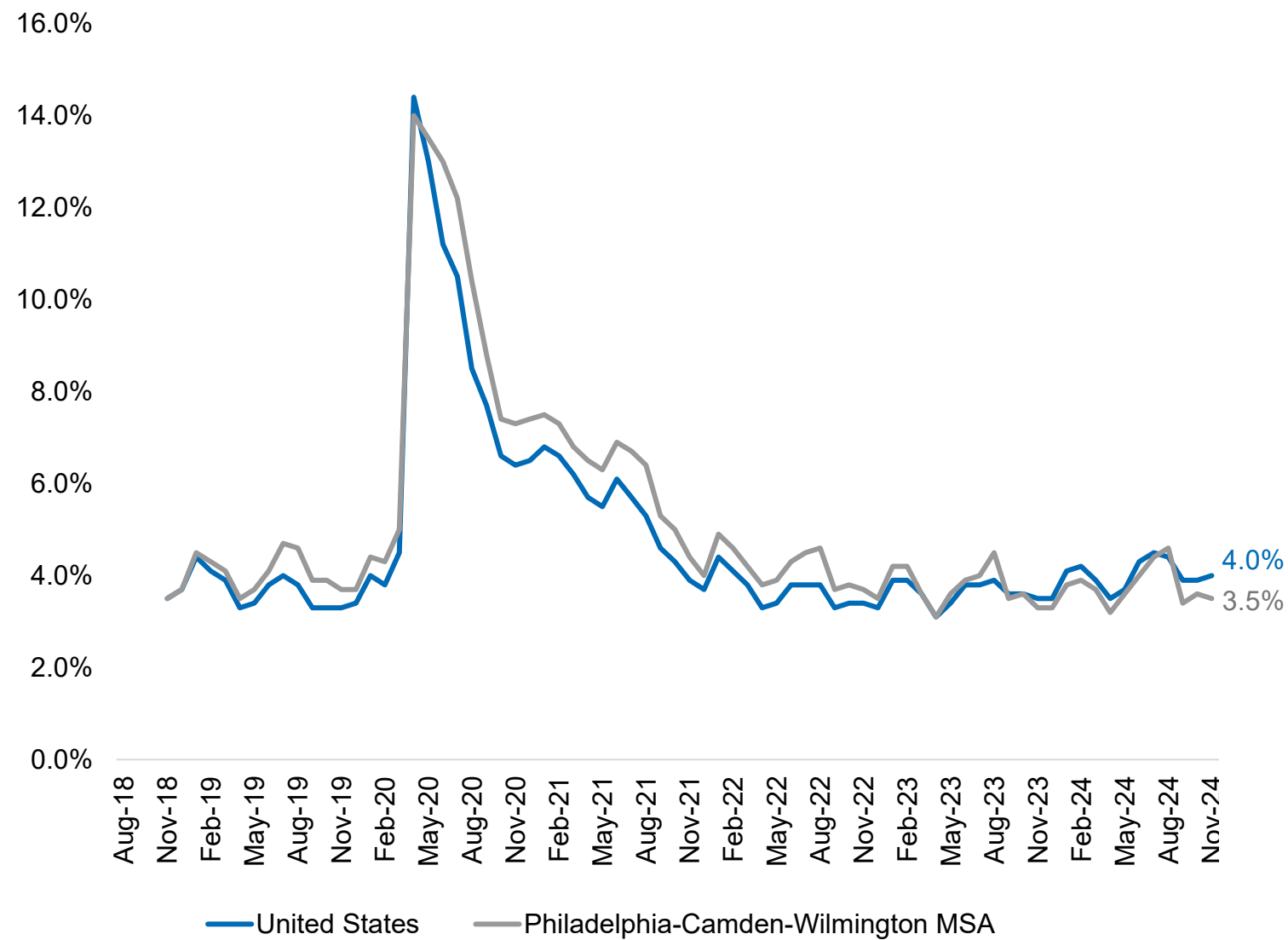
Economy



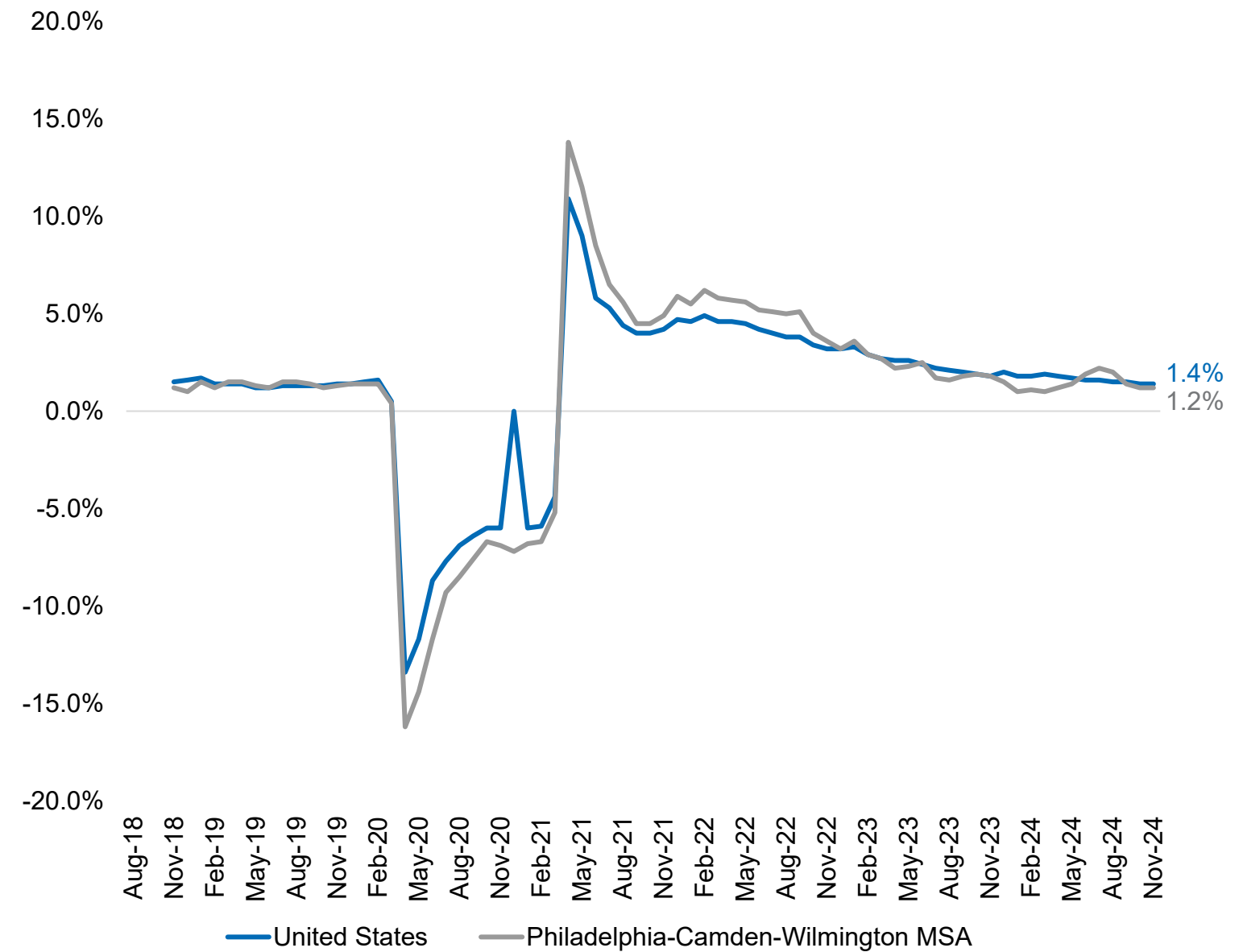
Greater Philadelphia Economy Remains Consistent

The Greater Philadelphia economy saw a small increase in unemployment for the 12 months ending in November but remains 50 basis points below the national unemployment rate. Annual nonfarm payroll employment grew 1.2% in November, a slight uptick from the moderating growth recorded through 2024. Greater Philadelphia's largest industry, Education and Health Services, continues to drive employment growth.

Unemployment Rate, Non-Seasonally Adjusted



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

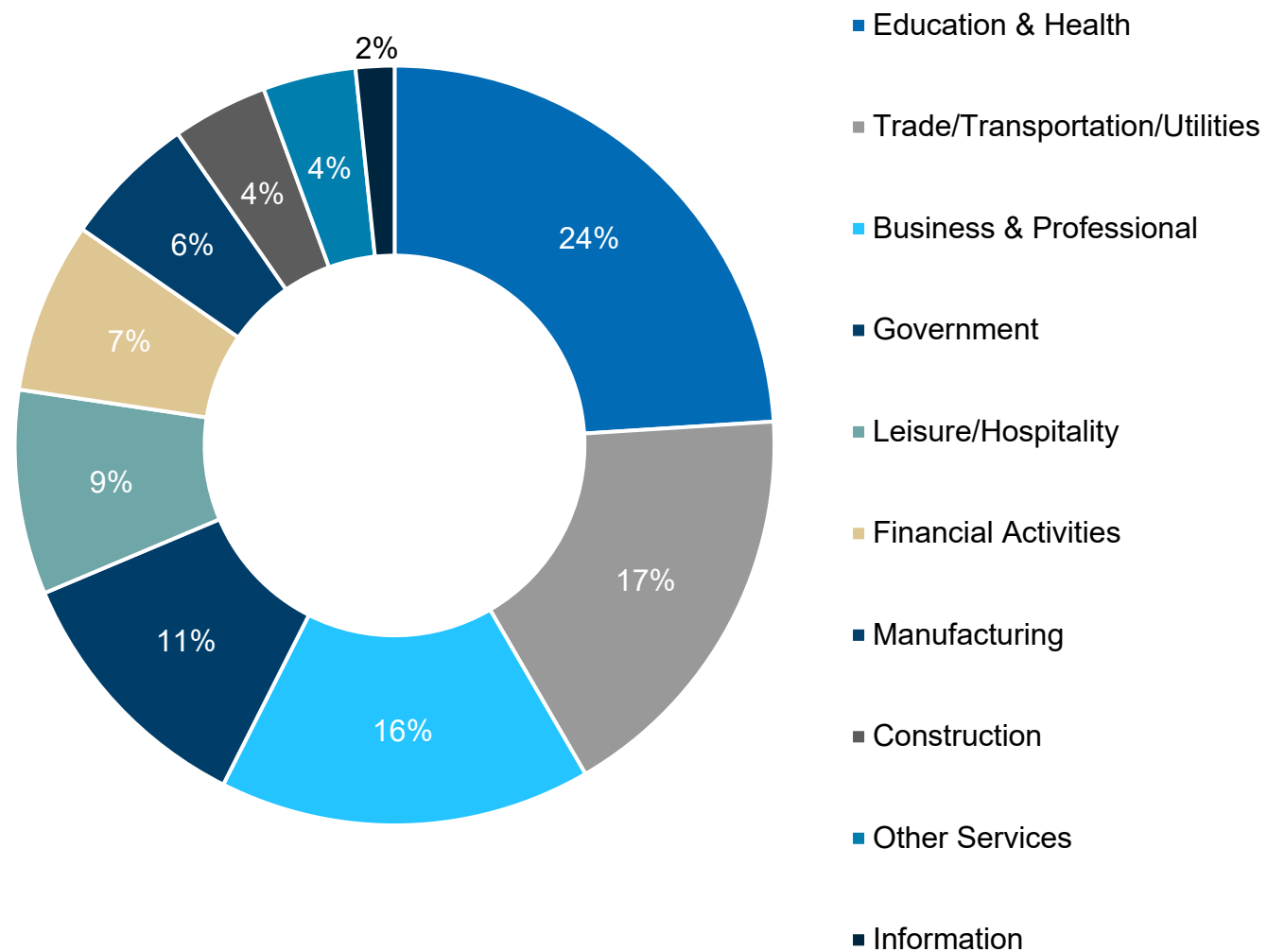


Source: U.S. Bureau of Labor Statistics, Philadelphia-Camden-Wilmington MSA

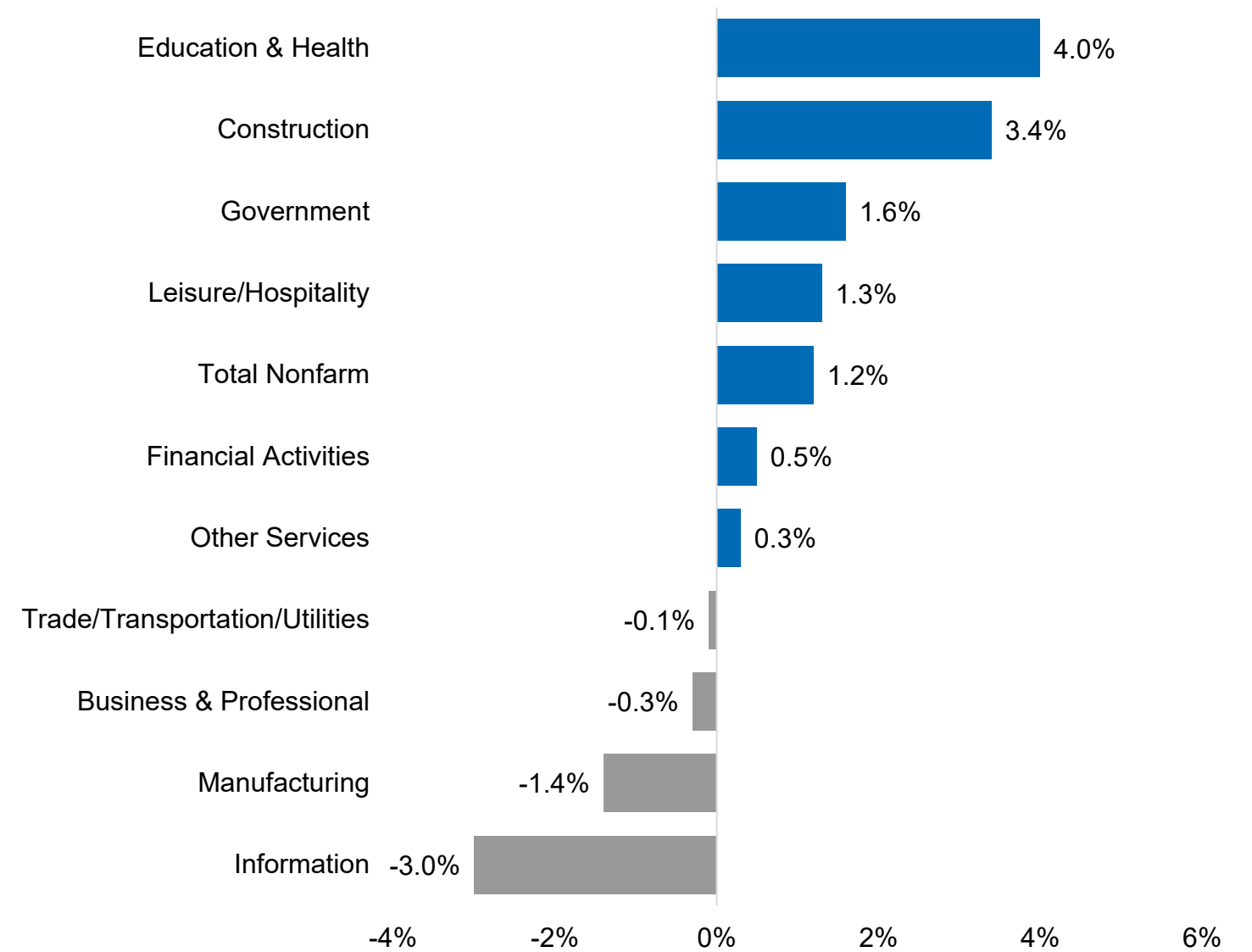
Office-Using Industries Decline While Healthcare And Education Lead The Way

The Education & Health Services, Construction, and Government sectors each grew by at least 150 basis points for the 12 months ending in November. These sectors employ about 40% of Greater Philadelphia's labor force. Strong annual employment gains in these sectors are an encouraging sign for the region's economy.

Employment by Industry, November 2024



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

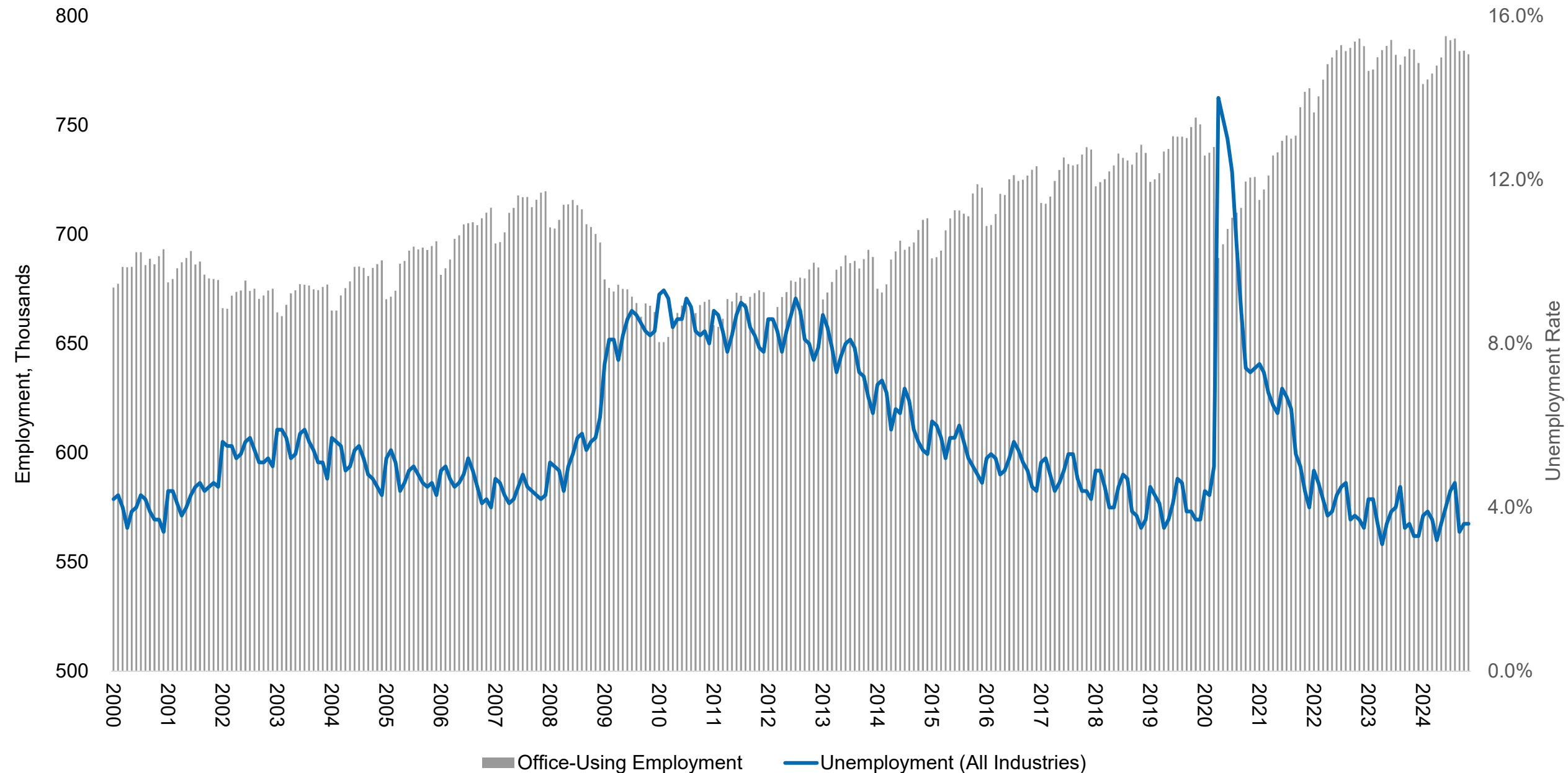


Source: U.S. Bureau of Labor Statistics, Philadelphia-Camden-Wilmington MSA

Office-Using Employment Remains Steady In Southern New Jersey

In November 2024, the annual percentage change in office-using employment was negative 27 basis points. Although there has been a consistent decrease in office-using employment this year due to sharp increases in the third quarter of 2024, we only saw a net decrease of 1.4% in 2024.

Office-Using Employment* and Unemployment Across All Industries



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

Note: November 2024 data is preliminary.

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

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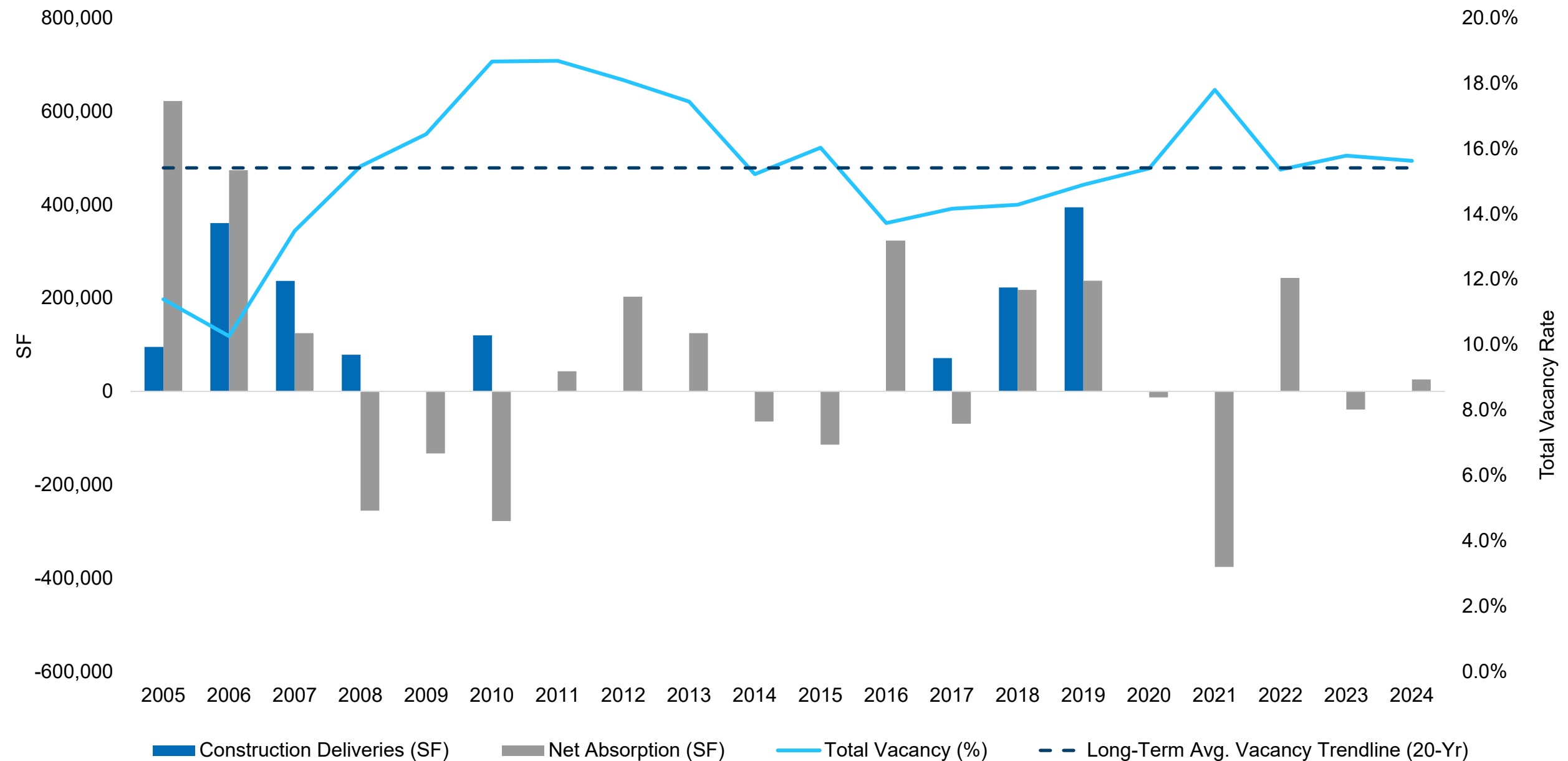
Leasing Market Fundamentals



Absorption Turns Positive In 2024

Southern New Jersey's fourth-quarter office vacancy rate registered 15.6%, a slight increase of 30 basis points from the previous quarter, but 20 basis points lower than a year ago. The Southern New Jersey office market absorbed roughly 26,000 SF of space this quarter. Though we saw negative absorption quarter-over-quarter, this was primarily driven by move-outs from older office buildings.

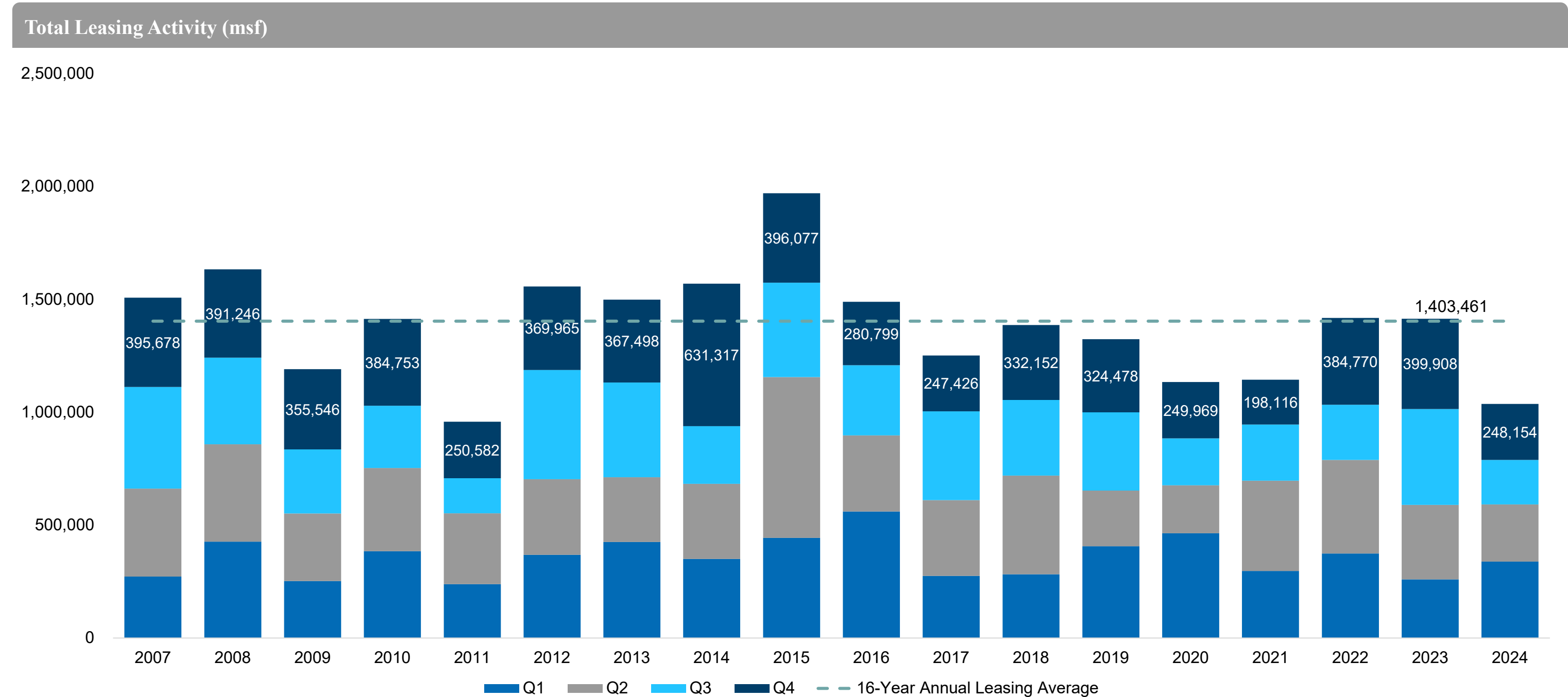
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Leasing Volumes Are Modest But Activity Was Strong

In 2024, leasing volumes reached a total of 1,036,710 square feet, which is 15.7% lower than the average from 2020 to the present. A total of approximately 374 leases were signed during the year, with an average lease size of 3,149 square feet. The average size of these deals is decreasing as tenants are opting to reduce their space, leading to smaller leasing volumes each year.

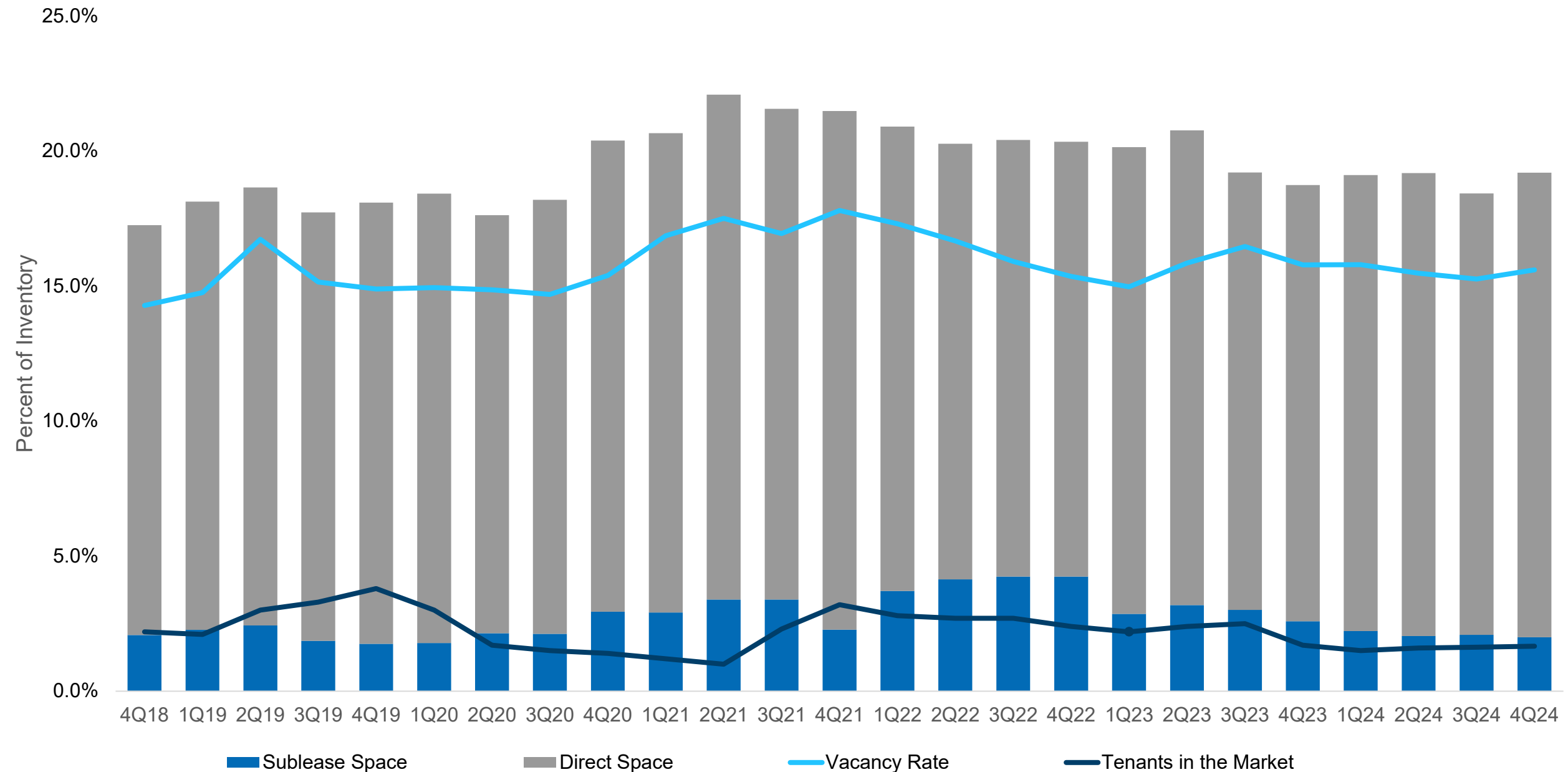


Source: Newmark Research, CoStar

Active User Demand Increases

At the end of the fourth quarter, the percentage of active users in relation to inventory increased by 10 basis points. Currently, tenants in the market are seeking an average of over 13,000 square feet of space. However, the fourth quarter featured several above-average-sized leases. Notably, Health Trax and Fidelity Information Services signed new leases for 39,876 SF and 30,887 SF, respectively.

Available Space and Tenant Demand as Percent of Overall Market

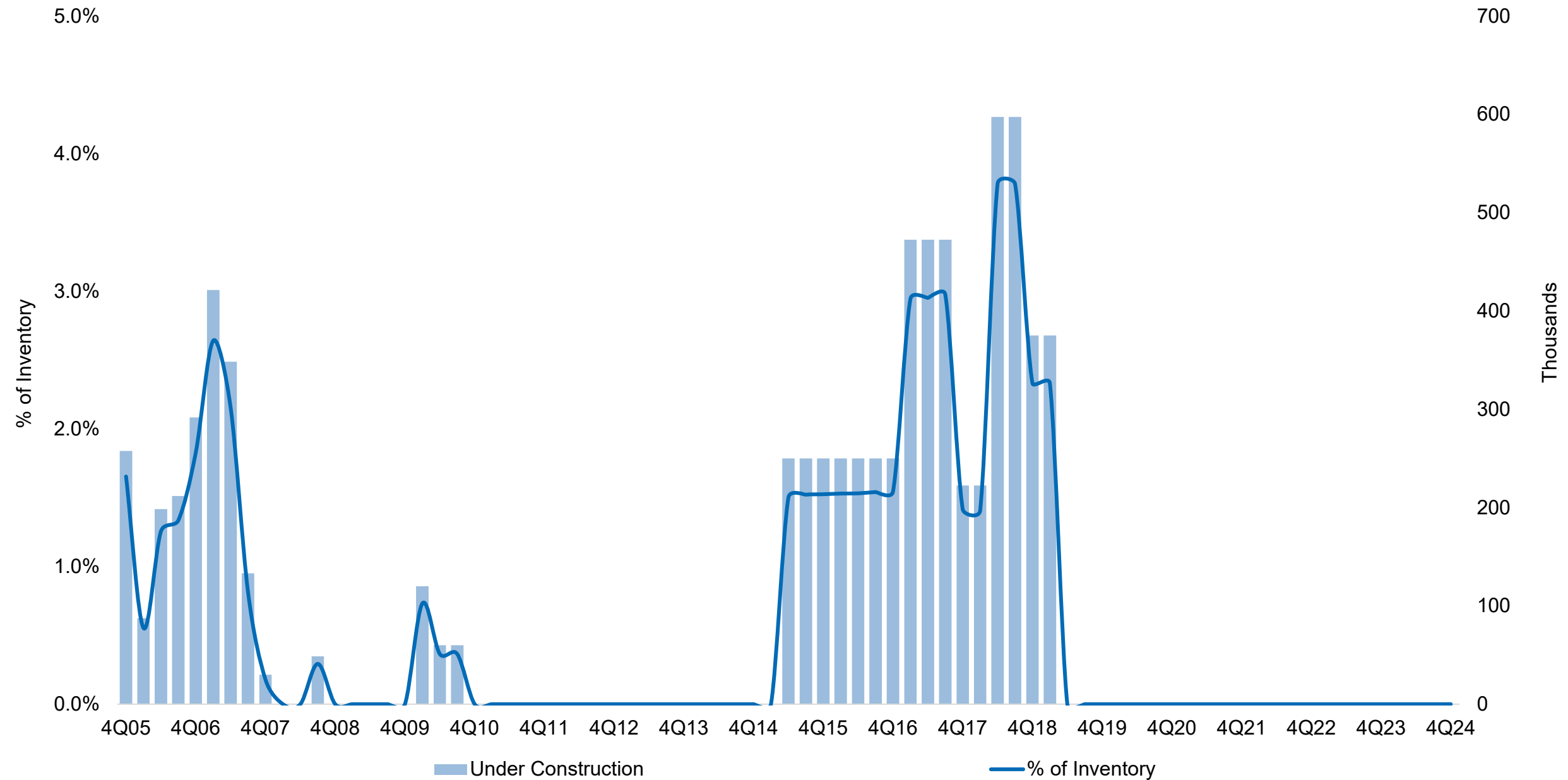


Source: Newmark Research

A Non-Existent Construction Pipeline Benefits The Market

The last significant delivery in Southern New Jersey occurred in 2019 at 2 Cooper Street in Camden. Currently, the lack of a pipeline is benefiting the market. For new development to be viable, there must be sufficient demand to absorb an additional 200,000-300,000 square feet of office space. Additionally, further right-sizing and the elimination of obsolete spaces are essential prerequisites for any new development.

Office Under Construction and % of Inventory

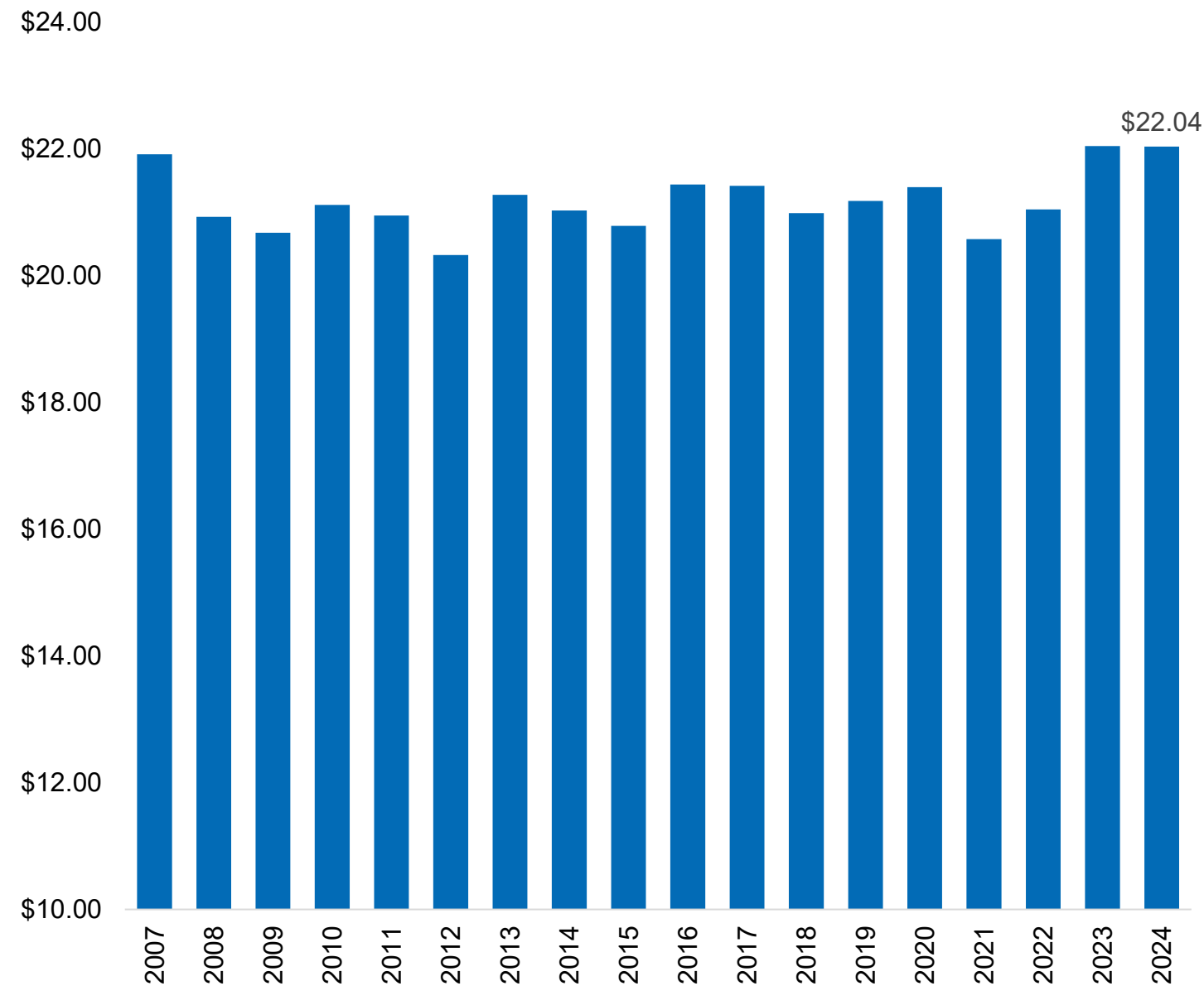


Source: Newmark Research, CoStar

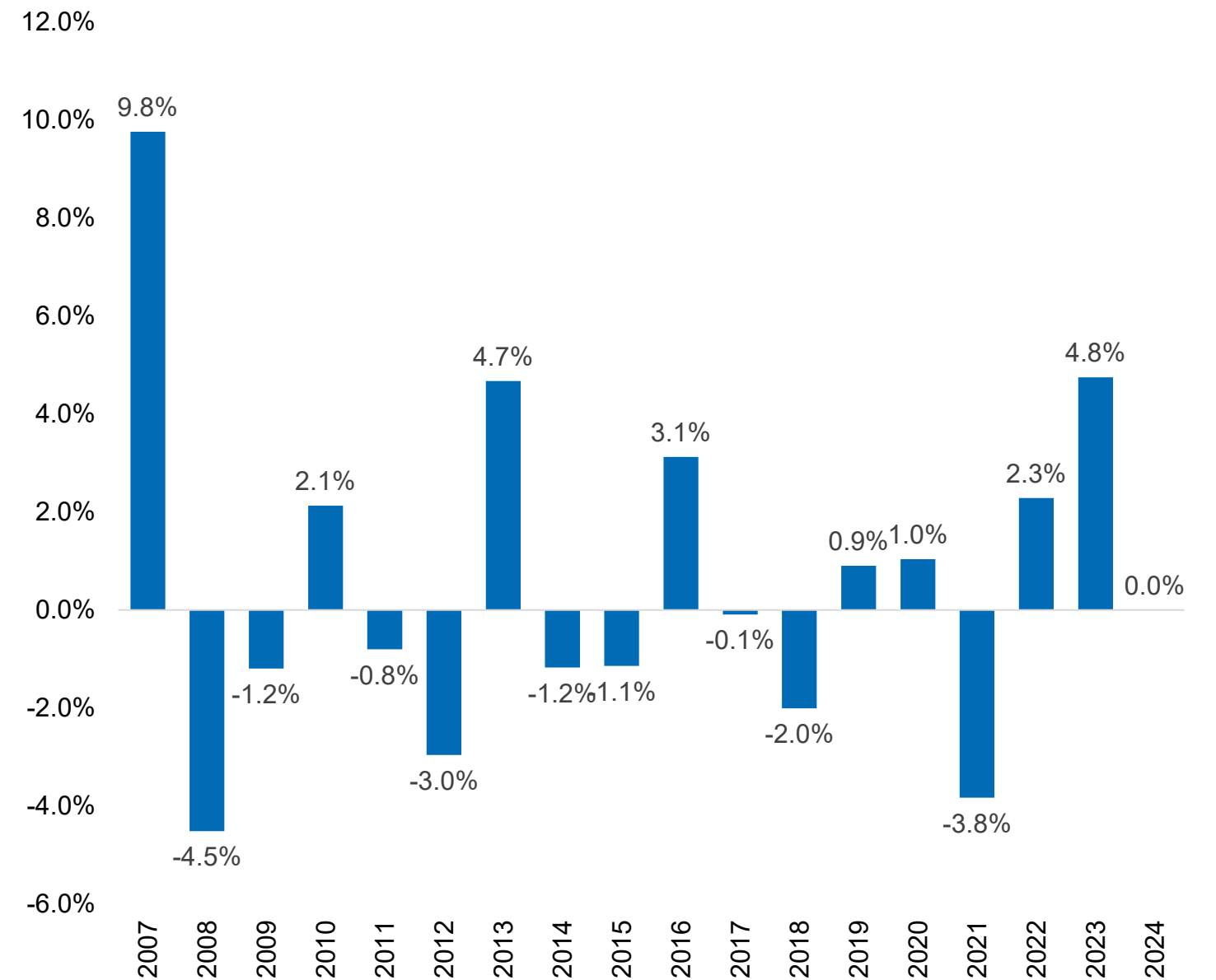
Rents Remain Above The 18-Year Average

Average rents in Southern New Jersey have completely recovered and now exceed pre-2020 levels, thanks to significant year-over-year increases in 2022 and 2023. Asking rents averaged \$22.04 at the end of 2024, which is only 5 basis points lower than 2023 rental rates, and remains 406 basis points above the 18-year average. Over the past four quarters, asking rents have remained stable, fluctuating only by \$0.12 around the average quarterly rate for 2024.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

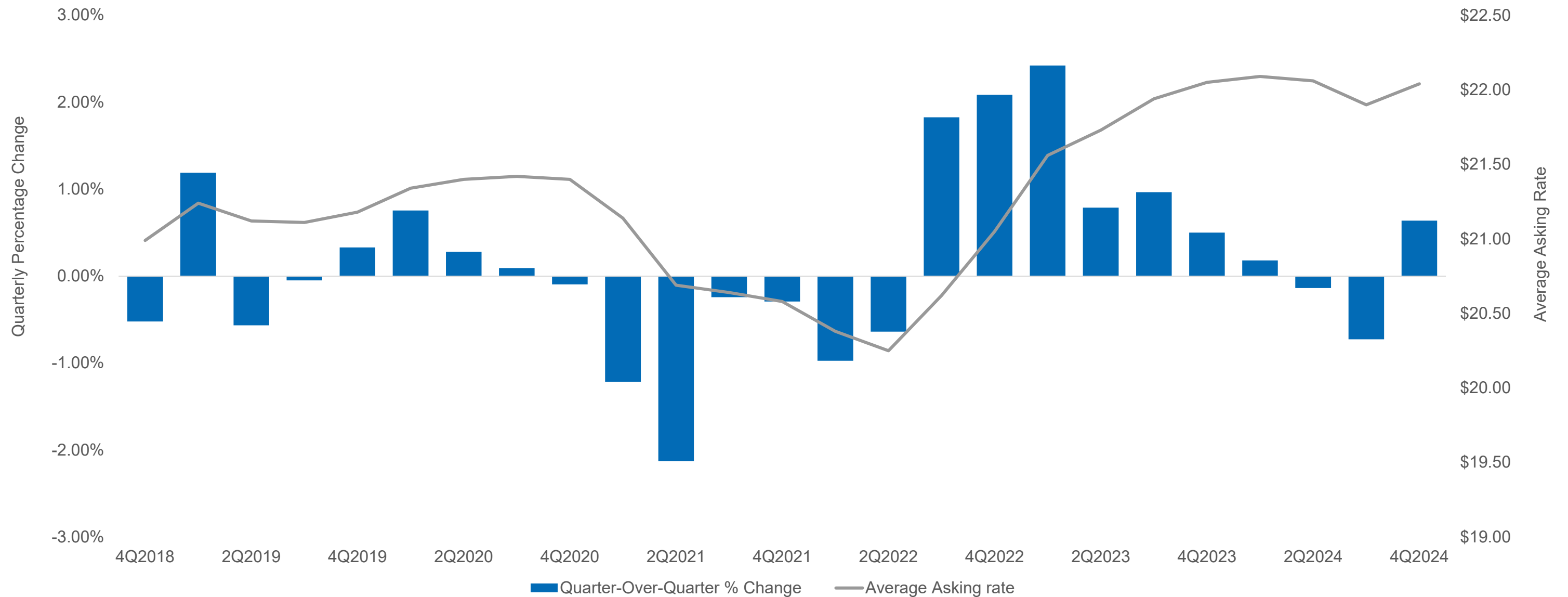


Source: Newmark Research

Asking Rates Increase To End The Year

Southern New Jersey's average asking rate reached a new record high of \$22.09/SF in the first quarter of 2024, staying close to this peak at \$22.04/SF in the fourth quarter of 2024. After seven consecutive quarters of positive rent growth from the third quarter of 2022 to the first quarter of 2024, the trend slowed down in the second and third quarters of 2024 with slight declines of -0.1% and -0.7%, respectively. However, rents have recently increased again by 0.6%, bringing us just \$0.05 away from the all-time high.

Historical Asking Rents and Quarter-Over-Quarter Performance

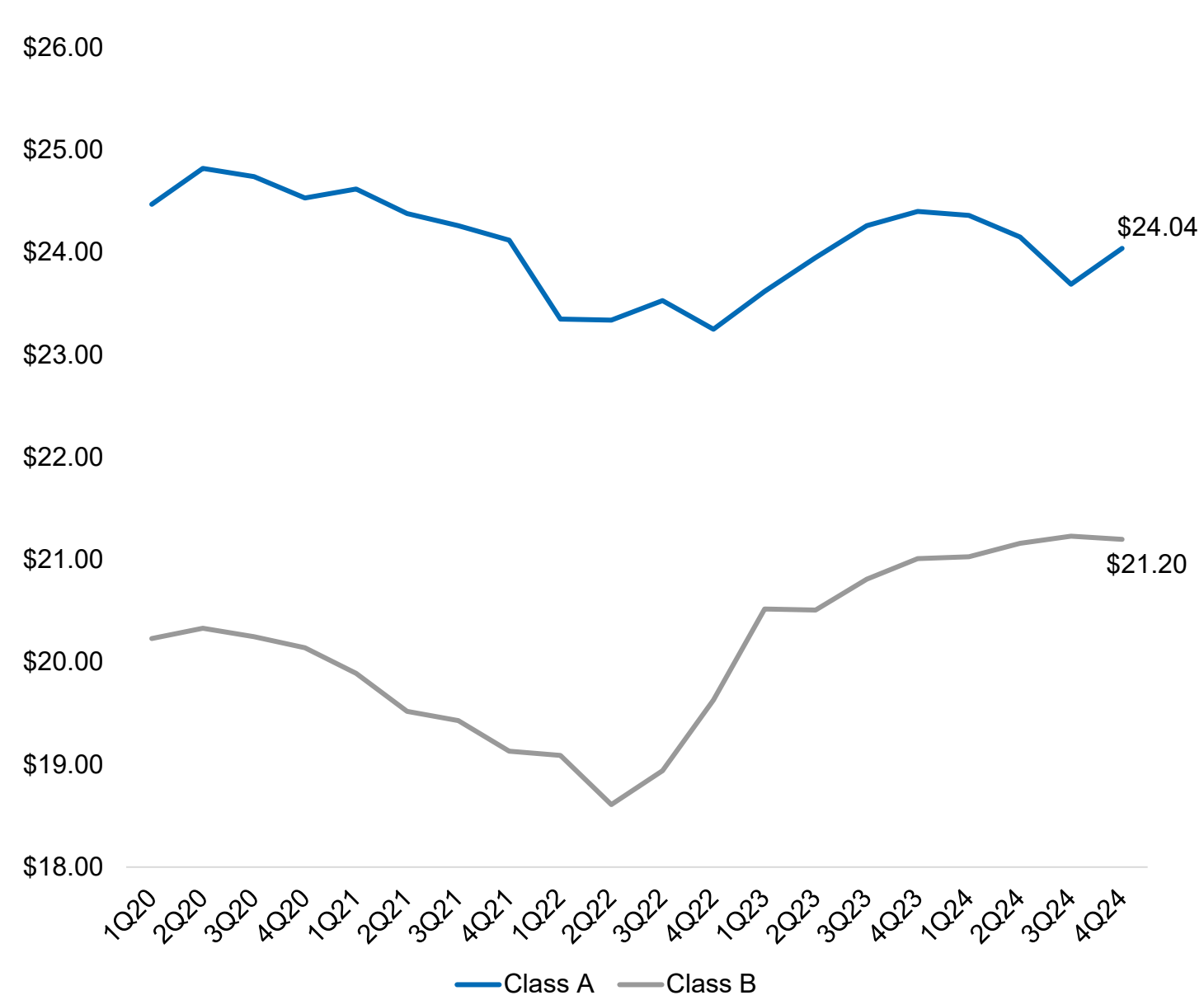


Source: Newmark Research

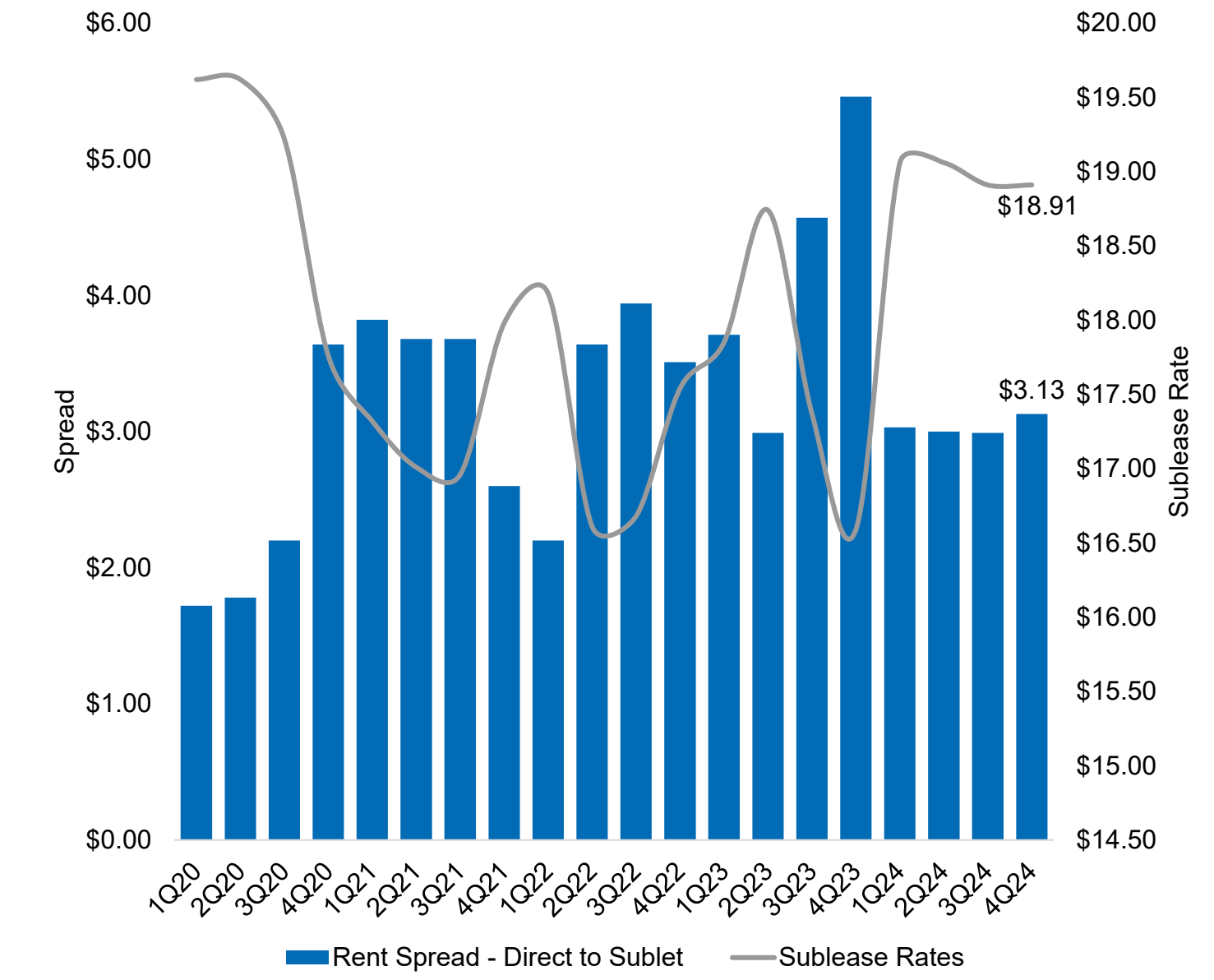
Class A Asking Rents Decline While Class B Rents Increase

Class B rents increased 90 basis points over the past year, while Class A rents declined 150 basis points from the prior year. However, Class A rents increased by 148 basis points between the third and fourth quarters. Asking rent averages are calculated based on the available space in the market. When higher-priced spaces are leased and removed from the pool of available options, the average asking rent can decrease year-over-year. In the fourth quarter, sublease asking rents averaged \$18.91 per square foot, remaining unchanged from the previous quarter but showing a 14% increase compared to the same time last year. This rise reflects a new mix of sublease supply in the market.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Office To Retail Conversions

As Class C office buildings and those of lower quality become obsolete, landlords are exploring innovative ways to repurpose the land for different uses. One notable example is the demolition of One Cherry Hill, a nine-story office building, which is being transformed into an expansion of the Cherry Hill Mall. This extension will feature a two-story, 120,000-square-foot sports complex that will include a turf field, a rock-climbing wall, and an ice rink. These facilities will cater to activities like youth sports practices and summer camps. Once the conversion is completed, Dick's Sporting Goods will occupy the entire space. As older office buildings continue to become outdated, landlords are likely to keep finding creative conversion solutions.



Source: Newmark Research, Philadelphia Business Journal



Please reach out to your
Newmark business contact for this information

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Market Statistics



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	19.3%	822,663	110,770	23.9%	(27,422)	\$23.13
Marlton	2,236,409	13.9%	438,368	94,143	19.6%	(12,827)	\$22.52
Moorestown	1,047,939	24.5%	238,101	19,620	22.7%	(23,451)	\$22.50
Mount Laurel	5,348,688	14.2%	1,005,246	60,910	18.8%	(34,283)	\$21.29
Pennsauken/Camden	2,442,317	7.7%	150,263	12,607	6.2%	(3,082)	\$20.63
Voorhees/Gibbsboro	1,352,533	22.4%	397,556	23,725	29.4%	43,910	\$21.53
Southern New Jersey	15,872,080	15.6%	3,052,197	321,775	19.2%	(57,155)	\$22.04

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