

SOUTHERN NEW JERSEY OFFICE MARKET

MOVING FORWARD, A MORE BALANCED OFFICE MARKET FOR SOUTHERN NEW JERSEY

The Southern New Jersey office market kicked off the third quarter of 2019 with the balance of space at Camden's newest office tower, Triad1828, occupied by The Michaels Organization and Connor Strong & Bucklew, following NFI's occupancy upon its delivery in June. These move-ins mark the end of the "Camden Effect", referring to the trend of large occupiers in the Southern New Jersey suburban submarkets relocating to Camden to pursue large tax incentives; the Grow New Jersey program that provided such incentives expired in June. Vacancy in the Pennsauken/Camden submarket is now 8.4%, falling below 10.0% for the first time since 2011, and is the lowest vacancy rate of any submarket in the region. As a result of this tightness—and the end of the tax incentives—prospects in the market for large blocks of space are shifting focus to availabilities in the suburban submarkets. Significant strides have been made in filling the space left behind by tenants that relocated to Camden, though opportunities do remain, including 64,190 SF at 3 Stow Road, formerly occupied by The Michaels Organization, and 21,026 SF at 220 Laurel Road, formerly occupied by NFI.

Total net absorption measured 236,253 SF in the third quarter, driven primarily by the aforementioned occupancies in Pennsauken/Camden. The suburban submarkets demonstrated varying performance, with Mount Laurel realizing modest expansion on the heels of ECI Software Solutions' 16,500-SF occupancy at 2000 Midlantic Drive. Other notable tenant move-ins included PokerStars' occupancy of 12,000 SF at 923 Haddonfield Road in Cherry Hill and in Marlton, Bet365 occupied 18,876 SF at 9000 E Lincoln Drive. A recent and encouraging influx of out-of-market tenants is a trend gaining momentum in the market this year. Industries such as coworking, sports betting and medical cannabis are among growing sectors that were not in local existence even five years ago. The UK-based Bet365, PokerStars, and 1776 are some of the firms within these industries that have signed for space this year, and more are coming. Multiple requirements for space from tenants in each of these new industries are currently being tracked by NKF Research.

Overall rental rates increased by about ten cents reaching \$20.71/SF. This uptick came primarily as a result of new asking rates set at 7000 Lincoln Drive, driven by the significant building upgrades which are set to complete by the end of the year, propelling the asset into the Class A sector. Landlords pursuing capital improvement plans are likely to push rates in the market, while rates for the rest of the inventory will likely continue to remain steady.

CURRENT CONDITIONS

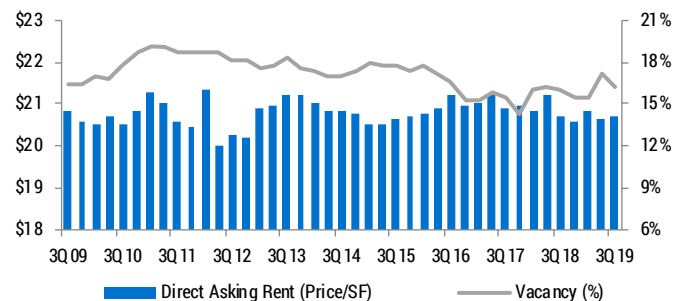
Connor Strong Bucklew and The Michaels Organization occupied the remaining 300,000 SF at Triad1828 in Camden

Market rents bumped from \$20.63/SF to \$20.71/SF in 3Q19

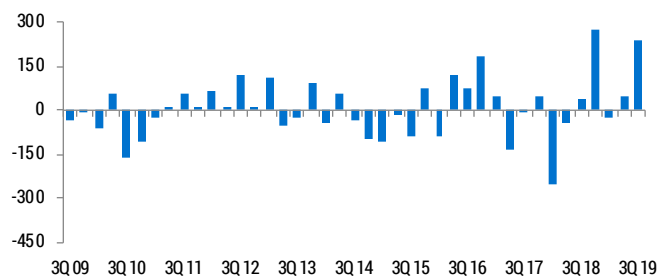
13000 Midlantic Drive sold to Willing Biomedical Group, who plan to occupy

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF, Millions)



MARKET SUMMARY

| | Current Quarter | Prior Quarter | Year Ago Period | 12 Month Forecast |
|--------------------------|-----------------|---------------|-----------------|-------------------|
| Total Inventory | 16.8 MSF | 16.8 MSF | 16.0 MSF | ↓ |
| Vacancy Rate | 16.3% | 17.3% | 15.9% | ↓ |
| Quarterly Net Absorption | 236,253 | 46,220 | 2,979 | ↓ |
| Average Asking Rent | \$20.71 | \$20.63 | \$20.74 | ↔ |
| Under Construction | 0.0 MSF | 0.0 MSF | 0.6 MSF | ↔ |
| Deliveries | 0.0 MSF | 0.0 MSF | 0.0 MSF | ↔ |

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 | - | 16.6 % | -4,121 | -27,818 | \$23.63 | \$21.68 | \$21.21 |
| Marlton | 2,461,538 | - | 20.6 % | -64,413 | -92,760 | \$26.20 | \$17.86 | \$20.98 |
| Moorestown | 1,085,091 | - | 15.9 % | -715 | 22,373 | - | \$21.24 | \$21.21 |
| Mount Laurel | 5,879,337 | - | 15.8 % | 13,969 | 11,996 | \$22.81 | \$19.10 | \$20.50 |
| Pennsauken/Camden | 2,403,055 | - | 8.4 % | 301,759 | 395,117 | - | \$16.00 | \$18.17 |
| Voorhees/Gibbsboro | 1,263,660 | - | 25.4 % | -10,226 | -49,637 | \$26.25 | \$19.91 | \$20.62 |
| Market Totals | 16,703,617 | - | 16.3 % | 236,253 | 259,271 | \$24.10 | \$19.63 | \$20.71 |

SELECT LEASE TRANSACTIONS

| Tenant | Building | Submarket | Type | Square Feet |
|------------------------|-------------------|-------------------|-------------------|-------------|
| Jefferson | 101 Woodcrest | Cherry Hill | New/Relocation | 30,000 |
| SCA Americas | 130 Gaither Drive | Mount Laurel | Renewal/Expansion | 21,000 |
| Pennoni Associates | 515 Grove Street | Pennsauken/Camden | Renewal | 18,850 |
| InSight Telepsychiatry | 1120 Route 73 | Mount Laurel | New/Relocation | 10,500 |

SELECT SALES TRANSACTIONS

| Building | Submarket | Sale Price (\$) | Price/Square Foot | Square Feet |
|-----------------------|--------------|-----------------|-------------------|-------------|
| 13000 Midlantic Drive | Mount Laurel | \$7.0M | \$42.98 | 69,792 |
| 950 N Kings Highway | Cherry Hill | \$2.8M | \$97.32 | 29,029 |

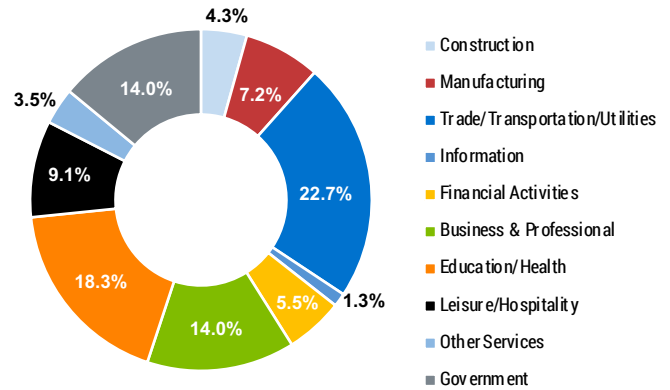
ECONOMIC CONDITIONS

Unemployment in the Camden Metropolitan division was 3.7% in July 2019 on par with the rate for the entire United States. Overall employment grew in the region by 1.2% year-over-year, amounting to 1,500 new jobs since third-quarter 2018. Just as employment has risen, so has the volume of office occupiers looking for space in the market, which NKF Research has tracked as growing by 21% year-over-year.

Since the Grow NJ tax incentive program has ended, there has been a notable geographic shift in where tenant requirements are focused in the market. In the third quarter of 2015, 22% of the total requirements for space in the market were focused on the Pennsauken/Camden submarket, while Marlton, Mount Laurel and Moorestown combined (the "3 Ms") were the focus of about 15%. In the third quarter of 2019 however, these figures shifted drastically: no significant tenant requirements were focused on Pennsauken/Camden while the 3 Ms accounted for 35% of the total requirements. With tenants choosing to stay in the 3 Ms and the new-to-market tenant growth described earlier in this report, Southern New Jersey's suburban submarkets will see modest positive gains through the end of the year.

EMPLOYMENT BY INDUSTRY

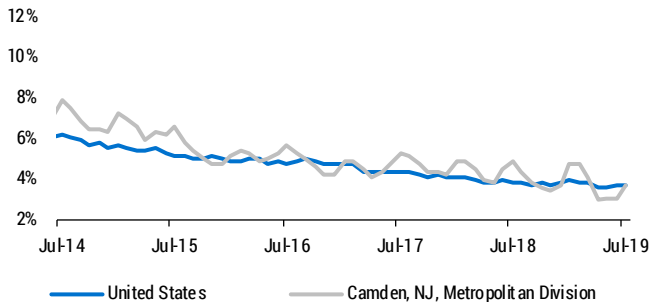
Camden, NJ Metropolitan Division, 2018 Annual Average



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

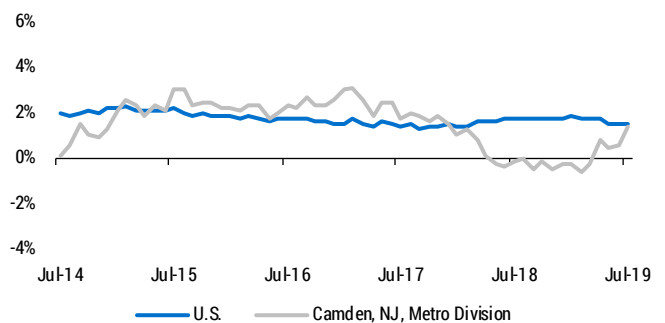
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

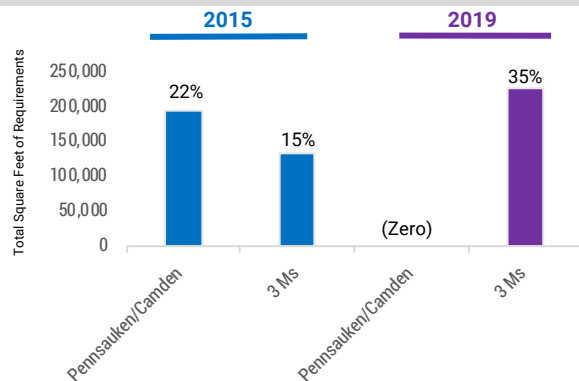
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

TOP TARGET SUBMARKETS FOR TENANTS IN THE MARKET

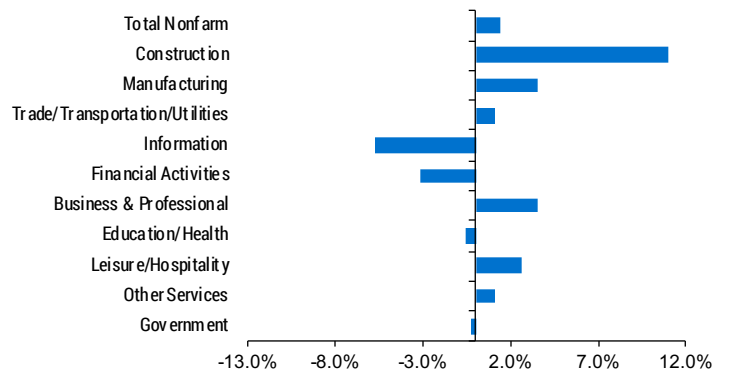
Historical Change between 3Q15 and 3Q19



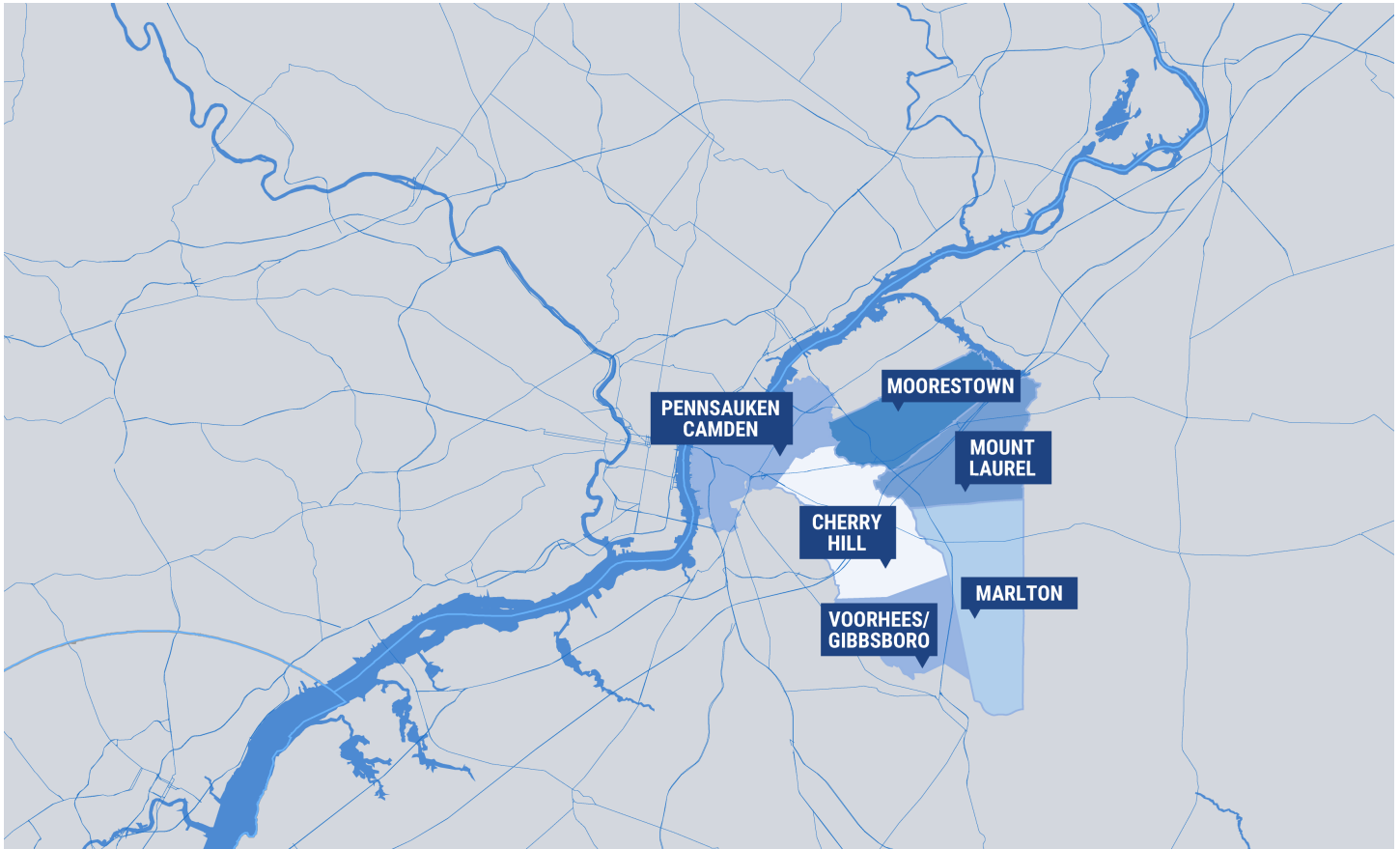
Source: NKF Research

EMPLOYMENT GROWTH BY INDUSTRY

Camden, NJ Metropolitan Division, July 2019, 12-Month % Change



Source: U.S. Bureau of Labor Statistics



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