

# ApartmentResearch

M A R K E T U P D A T E

Marcus & Millichap

The State of New Jersey

Third Quarter 2010

## NEAR-IN CLASS B/C DEMAND IMPROVING AHEAD OF ECONOMY

While New Jersey employment shows signs of strengthening, a few threats will challenge the local economy and apartment market into 2011. Statewide employment levels improved measurably in the first half of the year, but a resurgence in job growth remains choppy, preventing the local economy from gaining momentum in step with the national recovery. In the near term, pullbacks in federal, state and local government spending will result in a loss of public-sector jobs and create an impediment to private-sector gains at companies that rely heavily on government contracts. Nonetheless, an increase in household formation, and relatively elevated single-family home costs will help some areas begin to record an improvement in fundamentals before a statewide upturn next year. In Union and West Essex counties, for instance, the presence of major employers and accessibility to New York City will sustain renter demand, keeping vacancy rates in the 4 percent range at Class B/C properties. Lower-tier operations also have improved in the Cherry Hill/Evesham submarket, one of the first major suburban areas outside of Philadelphia along the Marlton Pike.

Banks have begun to unload distressed complexes in New Jersey, although activity thus far has been limited primarily to older properties and assets in tertiary locations. While velocity among REO and distressed assets will tick up in the near term, buyer sentiment and deal flow remain constrained by limited access to capital and economic uncertainty. The less competitive investment market, however, is pulling experienced local buyers off the sidelines to take advantage of rising cap rates. Initial yields for top-tier properties in Northern and Central New Jersey start in the low-7 percent range, more than 100 basis points above the average during the boom years. Quality multifamily assets in the southern part of the state trade at cap rates 20 basis points to 30 basis points higher, though lower-tier first-year yields typically begin above 8 percent.

## 2010 ANNUAL APARTMENT FORECAST



**Employment:** Despite gains during the first half of the year, a slower economic recovery and government layoffs in the second half will limit job gains to 7,700 positions in 2010, or a 0.2 percent expansion. Last year, 114,100 positions were eliminated.



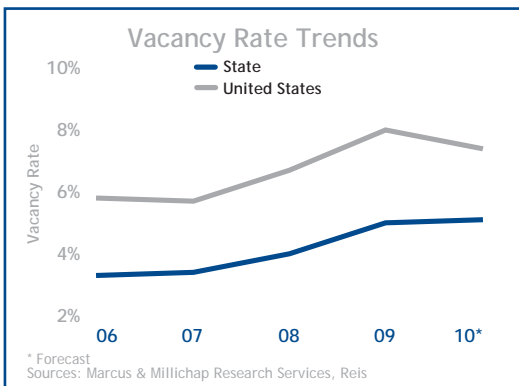
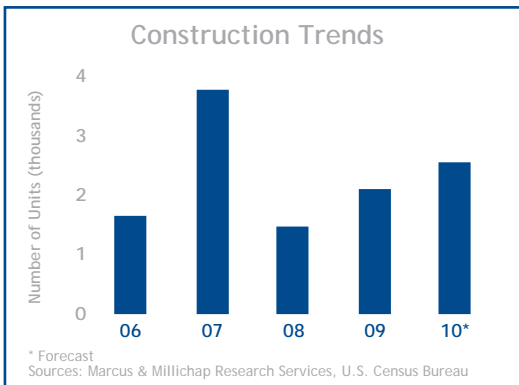
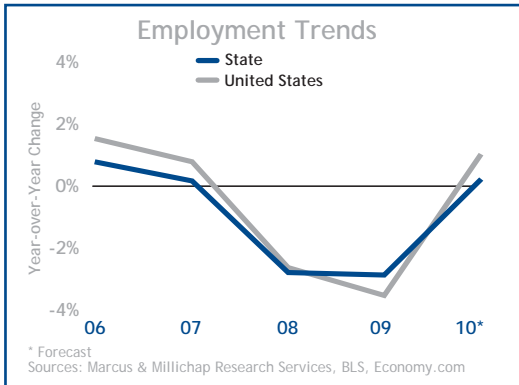
**Construction:** Supply growth in 2010 will be greatest in Northern New Jersey, where 1,965 units will come online. Central and Southern New Jersey will receive nearly 250 units and 320 units, respectively. Last year, 2,075 units were added to stock statewide.



**Vacancy:** This year, the New Jersey apartment vacancy rate will increase 30 basis points to 5.3 percent, following a 100 basis point spike in 2009.



**Rents:** Asking rents will advance 1.3 percent to \$1,284 per month, and effective rents will rise 2 percent to \$1,224 per month. Asking rents receded 3 percent last year, while effective rents fell 5.2 percent.



## ECONOMY

- ◆ Recessionary pressures are relenting in New Jersey. Thus far in 2010, local businesses have added 8,800 positions, a gain of 0.2 percent. During the same period last year, 86,600 workers were laid off.
- ◆ The state's education and health services sector has proven resilient through the recession, as payrolls in the segment expanded by 5,200 jobs, or 0.9 percent, in the past 12 months. Approximately 7,000 new hires were made in the prior year.
- ◆ Limited financing for new projects continues to erode employment levels in the construction sector, which has shed 11,800 positions since the second quarter of 2009, a 10.7 percent loss. Construction head counts were reduced by 28,300 jobs in the previous 12 months.
- ◆ Since peaking at 9.5 percent during the fourth quarter of 2009, the statewide unemployment rate has declined to 9.3 percent. Unemployment is lowest in the Trenton-Ewing metro at 7.9 percent, despite rising 20 basis points in the past year. In the state capital, however, government layoffs stemming from budget cuts will cause the unemployment rate to climb through year end.
- ◆ **Outlook:** A slower economic recovery and government layoffs during the second half will limit job gains to 7,700 positions in 2010, or 0.2 percent expansion. Last year, 114,100 positions were eliminated.

## CONSTRUCTION

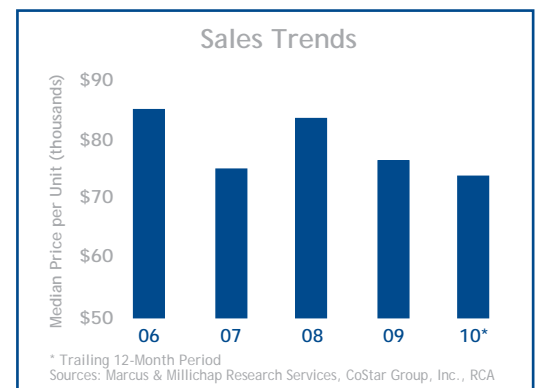
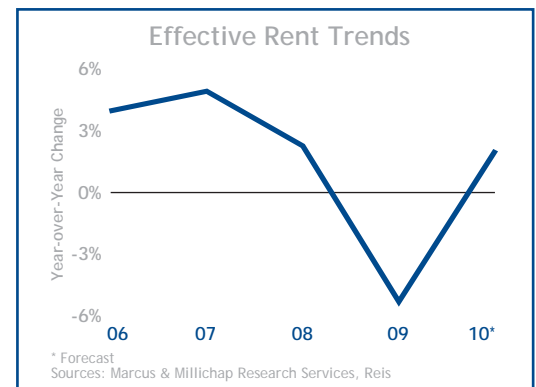
- ◆ Lengthy planning and construction timetables have kept the development pipeline full. Across New Jersey, builders added approximately 2,025 market-rate rentals to inventory in the past 12 months. In comparison, 1,775 units were delivered in the prior one-year stretch.
- ◆ Developers have expanded Northern New Jersey supply levels by 565 units year to date. Another 1,640 units are under way in the region, with deliveries starting in the third quarter of this year.
- ◆ Builders have 530 units under construction in Central New Jersey, including 120 units due by year end. The 312-unit Aspen Court project in Piscataway is the largest complex under way and is slated to be delivered in mid-2011. Asking rents at the development will average \$1,650 per month, compared to the submarket's average Class A asking rent of \$1,450 per month.
- ◆ The 317-unit Abitare in the Camden West submarket is the only project under construction in Southern New Jersey. The complex is slated to come online in the fourth quarter of this year.
- ◆ There are 6,750 units planned statewide, though none of the projects has an announced groundbreaking date.
- ◆ **Outlook:** Supply growth this year will be greatest in Northern New Jersey, where additions will total 1,965 new units. Central and Southern New Jersey will receive nearly 250 units and 320 units, respectively. Last year, 2,075 units were delivered statewide.

## VACANCY AND RENTS

- ◆ Statewide vacancy crept up 20 basis points in the past year to 4.9 percent. Asking rents fell 0.8 percent to \$1,274 per month, and effective rents dropped 0.9 percent to \$1,212 per month. In the previous year, vacancy surged 110 basis points, while asking and effective rents receded 1.3 percent and 2.9 percent, respectively.
- ◆ Despite supply increases, vacancy in Northern New Jersey improved 10 basis points to 5.1 percent so far in 2010. Year to date, asking and effective rents appreciated 0.5 percent and 0.7 percent to \$1,471 per month and \$1,393 percent, respectively.
- ◆ Central New Jersey vacancy increased 20 basis points to 4.1 percent thus far in 2010. Asking rents have fallen 0.6 percent to \$1,132 per month in that time, though effective rents have appreciated 0.1 percent \$1,088 per month.
- ◆ Last year, occupancy in the southern portion of the state climbed 120 basis points, while asking and effective rents lost 1.2 percent and 3.1 percent, respectively. During the first half of 2010, however, vacancy improved 40 basis points to 7.5 percent. Also, asking rents ticked 0.4 percent higher to \$923 per month, and effective rents gained 1 percent \$867 per month.
- ◆ **Outlook:** In 2010, New Jersey vacancy will rise 20 basis points to 5.1 percent, following a 100 basis point increase last year. Asking rents will ascend 1.3 percent to \$1,284 per month, and effective rents will rise 2 percent to \$1,224 per month.

## SALES TRENDS\*\*

- ◆ Tight debt markets and soft operations continue to apply downward pressure on velocity in New Jersey. The number of apartment sales declined 26 percent in the past year, after decreasing 19 percent in the prior 12 months. The median price retreated 7 percent over the past year to \$73,840 per unit, following a 2 percent rise in the previous annual period.
- ◆ Northern New Jersey deal flow decelerated 22 percent in the last year, after easing 7 percent in the previous year. The median price fell 7 percent in each of the last two 12-month periods and currently stands at \$72,220 per unit.
- ◆ With resilient pricing discouraging buyers with fire-sale expectations, the number of apartment acquisitions in Central New Jersey plummeted 45 percent in the past 12 months. During the same stretch, the median price appreciated 3 percent to \$93,330 per unit; prices decreased 7 percent one year earlier.
- ◆ After falling 42 percent over the last year and 61 percent in the preceding 12-month period, deal flow remains low in Southern New Jersey. Softer demand also has depressed values, as the median price regressed 10 percent year over year to \$62,325 per unit.
- ◆ **Outlook:** Investors looking for distressed-level pricing continue to target urban submarkets like Camden West and East Essex, where foreclosure activity of two- and three-family rental homes has weighed on investment-grade apartment values. Buyers with sufficient capital and management experience can find discount opportunities in these areas with significant risk and potential upside.



\*\* Data reflect a full 12-month period, calculated on a trailing 12-month basis by quarter.

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## CAPITAL MARKETS

By WILLIAM E. HUGHES, SENIOR VICE PRESIDENT, MARCUS & MILLICHAP CAPITAL CORPORATION

- ◆ Mixed economic indicators, stock market volatility and concerns surrounding the European debt crisis continue to drive investors to safety. As a result, the yield on the 10-year U.S. Treasury has declined since peaking at 4 percent in April; as of late July, the yield had fallen to 3 percent.
- ◆ Capital markets loosened over the past year, with life insurance companies ramping up lending and CMBS showing renewed signs of life. Nonetheless, the agencies remain the dominant sources of multifamily lending. This trend will continue through 2010 as the GSEs' multifamily portfolios outperform their residential mortgage operations, reducing the likelihood of drastic government-mandated changes to their apartment lending arms.
- ◆ Multifamily loan originations increased 37 percent in the second quarter but remained below levels reported during the same period last year. Fannie Mae and Freddie Mac's origination volume followed a similar pattern, rising in the second quarter but falling short of year-earlier levels.
- ◆ Loan-to-values range from 60 percent to 75 percent for portfolio lenders and push up to around 80 percent for best-of-class, agency-financed deals. All-in rates for five-year agency loans fall into the low-4 percent range, while 10-year loans price between 4.75 percent and 5.15 percent. While life companies will compete at these levels for best-of-class deals, most portfolio lenders are 100 basis points to 225 basis points higher.

## CENTRAL JERSEY VACANCY RANKING

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Northwest Middlesex	2.7%	40	\$1,167	-1.6%
2	Princeton/East Mercer	3.4%	130	\$1,128	2.3%
3	Southwest Middlesex	3.6%	50	\$1,104	-0.6%
4	Shore	3.9%	-20	\$1,059	0.9%
5	Ocean County	4.3%	-100	\$921	0.8%
6	West Monmouth	4.4%	-100	\$1,036	1.2%
7	East Middlesex	4.6%	60	\$1,112	-0.6%
8	Trenton	5.1%	0	\$910	-0.9%
9	Somerset County	5.2%	50	\$1,192	1.4%

## NORTH JERSEY VACANCY RANKING

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Morris County	3.2%	-90	\$1,144	-0.6%
2	West Essex	3.7%	-90	\$1,398	-2.6%
3	Passaic County	3.8%	30	\$1,152	-2.3%
4	Hudson County	4.6%	80	\$2,380	-2.3%
5	Union County	4.6%	10	\$1,080	-0.8%
6	Bergen County	5.3%	30	\$1,459	-2.1%
7	Newark/Orange/East Essex	7.8%	30	\$831	-1.5%

## SOUTH JERSEY VACANCY RANKING

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Gloucester County	5.5%	-10	\$853	-1.2%
2	Camden	7.1%	80	\$820	-0.6%
3	Camden West	7.1%	-20	\$818	-0.5%
4	Burlington County	7.4%	240	\$814	-2.5%
5	Moorestown/Maple Shade/Mt. Laurel	8.2%	-30	\$920	-0.8%
6	Cherry Hill/Evesham/Medford	10.2%	-40	\$1,032	-0.6%

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Note: Metro-level employment growth is calculated using seasonally adjusted quarterly averages. Sales data includes transactions valued at \$500,000 and greater unless otherwise noted. Sources: Marcus & Millichap Research Services, Bureau of Labor Statistics, CoStar Group, Inc., Economy.com, National Association of Realtors, Real Capital Analytics, Reis, TWR/Dodge Pipeline, U.S. Census Bureau.

The 14 counties covered in this report contain more than 90 percent of the renter-occupied housing units in the state. Construction, rent and vacancy data cover these 14 counties only. Employment data covers the entire state unless where noted otherwise.