

# ApartmentResearch

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

Marcus & Millichap

The State of New Jersey

Third Quarter 2009

## VACANCY REMAINS AT HEALTHY LEVELS, DESPITE TRENDING HIGHER

Intensifying employment losses are eroding renter demand in New Jersey, although operating fundamentals vary greatly by region. In Northern New Jersey, asking rents, which are the highest in the state, have been reduced the fastest, though vacancy increased just 30 basis points in the second quarter. Vacancy in Southern New Jersey began rising sharply in late 2008; however, the rate stabilized in the most recent quarter, with asking rents pushing marginally higher due to the area's affordability compared to Philadelphia and Central New Jersey. Although rents in the central portion of the state have appreciated in recent years, sustainable asking rent growth during that time has moderated rent cuts so far in 2009. Similarly, vacancy in the area has climbed since mid-2008 but is still the lowest in the state, ending the second quarter at 3.8 percent. While the recession is discouraging projects from breaking ground, a large number of developments are already under way. Previously robust rent gains have kept builders active in the north, where inventory will expand by 1,925 units this year. No deliveries are expected in Southern New Jersey, although 290 units are slated to come online in the central region by year end.

Similar to rental trends, investment activity has varied considerably across the state. Fears of persistent rent reductions have driven down the median price in Northern New Jersey 6 percent in the past year, though deal flow has only declined 10 percent due to the willingness of both local and national banks to lend. In Central New Jersey, an overheated market from 2004 to 2006 caused velocity to bottom out over the following 18 months. In the last year, however, the number of acquisitions in the area has spiked 40 percent, but prices have dipped as a result of recessionary pressures. In Southern New Jersey, the number of apartment acquisitions has fallen 55 percent during the past 12 months, yet prices have climbed 44 percent, as economic stresses have not yet broken the region's pattern of price surges after prolonged periods of flat apartment values.

## 2009 ANNUAL APARTMENT FORECAST



**Employment:** Economic stresses will keep the pace of layoffs elevated throughout this year, as 129,500 New Jersey employees will be let go, a decline of 3.3 percent. In 2008, 81,600 workers were cut.



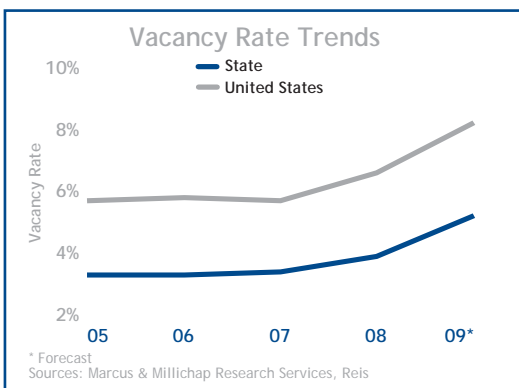
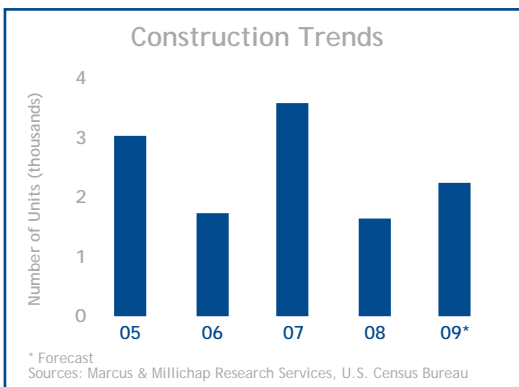
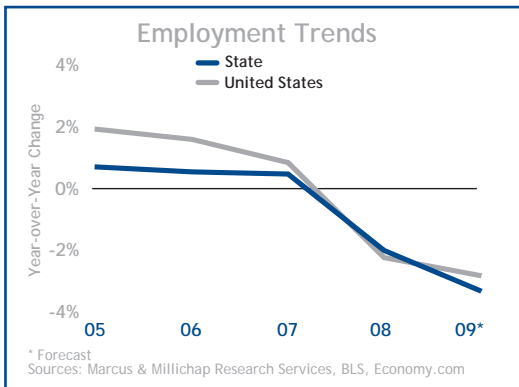
**Construction:** An uptick in completions during the second half will push construction output to 2,220 units in 2009, after 1,625 units were added last year.



**Vacancy:** Job losses continue to erode residential demand. As a result, statewide vacancy is forecast to rise 130 basis points to 5.2 percent this year. In comparison, vacancy ticked up 50 basis points in 2008.



**Rents:** In 2009, New Jersey asking and effective rents are expected to fall 1.6 percent and 3.4 percent to \$1,286 per month and \$1,225 per month, respectively.



## ECONOMY

- ◆ Since the second quarter of 2008, New Jersey employers have reduced head counts by 157,100 positions, or 3.9 percent. In the preceding 12 months, 9,100 new hires were added.
- ◆ In Northern New Jersey, the recession has forced 74,800 employees out of work over the past year. Meanwhile, 51,900 jobs have been eliminated in the central portion of the state, and payrolls have contracted by 30,400 positions in the south.
- ◆ Personnel cutbacks have been most severe in the professional and business services and trade, transportation and utilities sectors, which have trimmed 53,000 workers and 32,300 workers, respectively, during the last 12 months.
- ◆ Auto-manufacturer woes are evident in New Jersey. General Motors is expected to shutter 62 dealerships and let go 3,900 employees across the state. In addition, Chrysler will eliminate 1,800 positions with the closing of 30 locations.
- ◆ **Outlook:** Economic stresses will keep the pace of layoffs elevated throughout this year, as 141,200 New Jersey employees will be shed, a decline of 3.5 percent. In 2008, 81,600 workers were cut.

## CONSTRUCTION

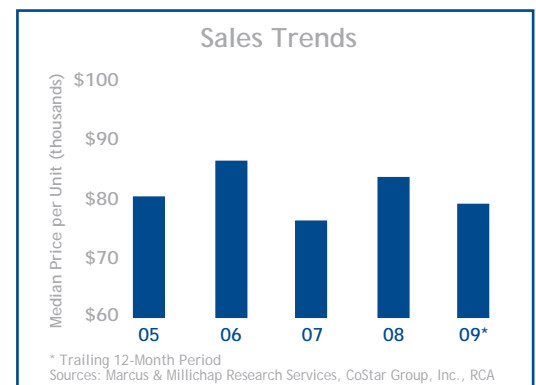
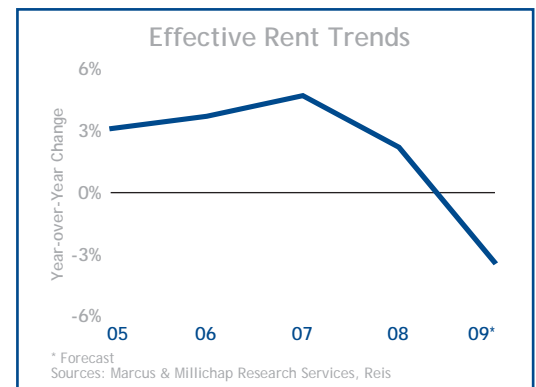
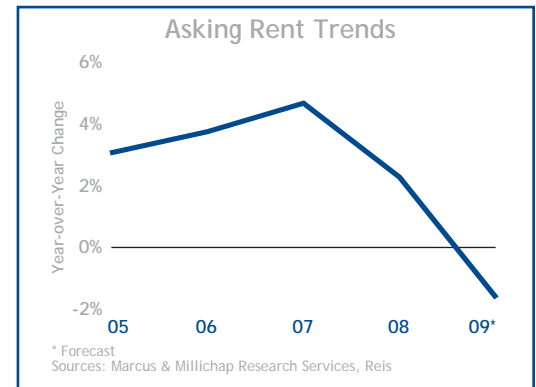
- ◆ Although there are a number of large projects under way in the state, builders have slowed rental completions over the past 12 months to 1,040 units. In the previous year, 3,320 apartments were delivered.
- ◆ In the 12-month period ending in the second quarter of 2009, Northern New Jersey inventory expanded by just 320 market-rate units, well below the 2,280 units added in the prior year and the annual average delivery of 840 units since 2000.
- ◆ Central New Jersey builders also have eased construction, as 720 units have been completed in the last year, compared with 940 apartments in the preceding 12 months. Construction output will likely fall further, as the 288-unit Bristol Station in Carteret is the only project expected to be finished by year end.
- ◆ Development activity in Camden, Gloucester and Burlington counties remains muted. The last major delivery was in early 2007, and the only project under construction is a 317-unit complex slated for delivery late next year. There are, however, three projects totaling more than 800 rental units planned.
- ◆ Multi-family permitting activity, an indicator of future supply additions, has declined markedly for the second consecutive year. In the past 12 months, the number of multi-family permits issued statewide has fallen 43 percent to 7,140 units.
- ◆ **Outlook:** An uptick in completions during the second half will push construction output to 2,220 units in 2009, after 1,625 units were added last year. Although there are no deliveries expected in the south, Northern and Central New Jersey inventories will expand by 1,925 units and 290 units, respectively.

## VACANCY AND RENTS

- ◆ While still healthy compared to most other metros, vacancy in New Jersey reached 4.7 percent in the second quarter, the highest rate since 1992. In the past 12 months, vacancy has climbed 100 basis points, following a 10 basis point gain in the previous year.
- ◆ As of the second quarter, asking rents fell 0.4 percent year over year to \$1,296 per month, while effective rents retreated 1.4 percent to \$1,243 per month. In the first half of 2009, however, asking and effective rents regressed 0.9 percent and 1.9 percent, respectively.
- ◆ So far in 2009, the Northern New Jersey vacancy rate has risen 130 basis points to 4.8 percent, while asking and effective rents have slipped by 1.4 percent and 2.6 percent to \$1,497 per month and \$1,436 per month, respectively.
- ◆ In Central New Jersey, vacancy ended the second quarter at 3.8 percent, 20 basis points higher than at year-end 2008. Asking rents in the region have declined 0.5 percent year to date to \$1,152 per month, and effective rents have receded 1.3 percent to \$1,108 per month.
- ◆ Apartment owners in Southern New Jersey have recorded a 50 basis point increase in vacancy to 7.2 percent over the past two quarters. During the same period, asking rents have increased 0.1 percent to \$940 per month and effective rents have inched up 0.4 percent to \$887 per month.
- ◆ **Outlook:** Job losses continue to erode residential demand. As a result, statewide vacancy is forecast to rise 130 basis points to 5.2 percent this year. Asking and effective rents, meanwhile, are expected to fall 1.6 percent and 3.4 percent to \$1,286 per month and \$1,225 per month, respectively.

## SALES TRENDS\*\*

- ◆ Continuing a statewide decline in sales velocity that stretches back to 2007, deal flow has decreased 11 percent in the past 12 months due to fears of falling revenues and a deepening recession. A greater percentage of Class A acquisitions, however, has boosted the median price 2 percent in that time to \$79,000 per unit.
- ◆ Although most transactions in the state continue to be recorded in Northern New Jersey, the number of sales in this region has dropped 10 percent since mid-2008. In step with softening demand, the median price has fallen 6 percent to \$77,500 per unit.
- ◆ The number of apartment purchases in Central New Jersey has rebounded 40 percent in the last year, after acquisition activity decreased sharply during the preceding 18 months. Meanwhile, the median price in the region has retreated 4 percent year over year to \$91,500 per unit.
- ◆ Economic uncertainty has slowed sales velocity approximately 55 percent in Southern New Jersey over the past 12 months, making it difficult to determine a median price. Buyers are focusing on infill assets between Interstate 295 and the Delaware River, particularly properties listed in the mid-\$60,000 per unit to mid-\$70,000 per unit range.
- ◆ **Outlook:** Conservative buyers will look to Bergen and Hudson counties, where sturdier incomes and barriers to inventory expansion are expected to stabilize apartment values over the long term, despite the current fluctuation in revenues.



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

# Marcus & Millichap

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## CAPITAL MARKETS

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

- ◆ During the first quarter, multi-family mortgage originations were 61 percent below year-earlier levels and 79 percent lower than the late-2006 peak. Though considerable, the reduction in apartment originations remains less significant than declines among other core commercial property types, due largely to the availability of financing through Fannie Mae and Freddie Mac.
- ◆ Portfolio lenders are issuing apartment financing at all-in rates of 6.0 percent to 6.3 percent for three-year loans and up to 6.8 percent to 7.5 percent for a 10-year term. Loan-to-value requirements range from 55 percent to 75 percent.
- ◆ Agency lenders are offering five-year loans at all-in rates of 4.8 percent to 5.0 percent with 10-year mortgages available at rates averaging 5.35 percent and 5.7 percent, respectively. Maximum leverage among agency lenders ranges from 55 percent to 75 percent.
- ◆ Freddie Mac recently completed a \$1 billion securitization of multi-family debt, the first issuance to hit the market since last June. The securities, dubbed "K Certificates," vary from traditional CMBS in that buyers are provided a guarantee by Freddie Mac. In addition to the potential for another similar offering, government programs designed to increase credit flows into commercial real estate could be operational by late summer/early fall.

## CENTRAL JERSEY VACANCY RANKING

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Princeton/East Mercer County	2.1%	40	\$1,123	-0.2%
2	Northwest Middlesex County	2.3%	10	\$1,208	-3.3%
3	East Middlesex County	4.0%	50	\$1,140	-1.1%
4	Shore	4.1%	220	\$1,069	-1.9%
5	Trenton	5.1%	90	\$935	0.4%

## NORTH JERSEY VACANCY RANKING

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Hudson County	3.2%	-10	\$2,472	-2.9%
2	Passaic County	3.5%	50	\$1,196	0.9%
3	Morris County	4.1%	160	\$1,168	-1.8%
4	Union County	4.5%	180	\$1,105	-2.9%
5	Bergen County	5.0%	150	\$1,513	-1.2%
6	Newark/Orange/East Essex County	7.5%	150	\$857	-1.3%

## SOUTH JERSEY VACANCY RANKING

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Burlington County	5.0%	130	\$946	1.0%
2	Gloucester County	5.3%	0	\$906	1.8%
3	Camden County	7.8%	270	\$895	0.7%

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.