

AFFORDABLE RENTS DRIVING TENANT DEMAND

New Jersey employers have shed 94,400 jobs year to date, reducing the ability of households to meet monthly housing expenses. Layoffs are easing, however, as 75 percent of those positions were eliminated in the first two quarters. In the northern portion of the state, apartment revenues have declined the least in Passaic County, where more modest rent cuts have kept vacancy below 4 percent. Meanwhile, revenues remain stable in the Princeton/East Mercer County submarket as a result of steady demand generated by high student and employer concentrations. In Southern New Jersey, renters are opting for affordable near-in locations. Consequently, apartments in Gloucester County are receiving the most tenant demand, allowing owners to push up rents. In the development arena, a lack of under way projects in Central and Southern New Jersey is expected to support stable operations through the coming months. In Northern New Jersey, conversely, builders will expand local stock by more than 2,600 units over the next five quarters, creating a potentially sizable supply-side threat.

Although community and regional banks are still funding smaller deals throughout New Jersey, tighter lending requirements and easing investment demand continue to dampen deal flow. Proximity to large employers and double-digit declines in prices have maintained buyer interest in Northern New Jersey. In Union City, for example, the median price has dipped approximately 12 percent year over year, but velocity remains steady, as the area's discounted assets and closeness to New York City are attracting investors. In Central and Southern New Jersey, buyers are waiting for clearer signs of job and rental market stabilization before deploying capital. Nevertheless, some investors are staying active, spurred by cap rates in the high-7 percent range in Middlesex County and initial yields near 9 percent in Camden County.

2009 ANNUAL APARTMENT FORECAST



Employment: Despite a milder pace of job losses in the second half, 113,900 workers, or 2.8 percent of the state's work force, will be let go in 2009. Last year, 85,700 positions were eliminated.



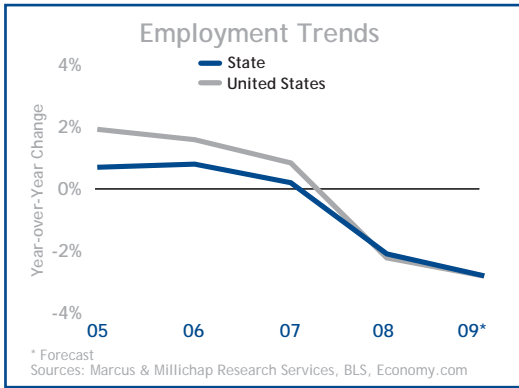
Construction: After 1,740 rentals came online in 2008, 1,620 units will be added to stock statewide this year. Approximately 1,330 units will be delivered in Northern New Jersey, and 290 units will be brought online in the central region.



Vacancy: This year, vacancy is forecast to climb 140 basis points to 5.3 percent, compared with a 50 basis point increase in 2008.

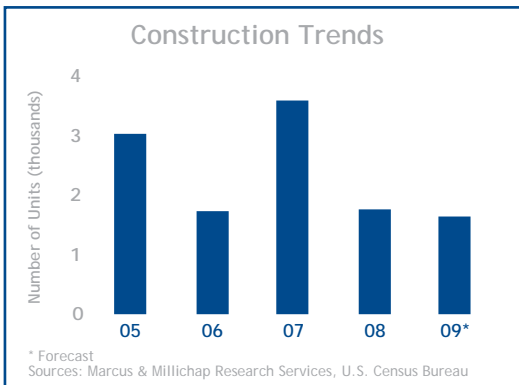


Rents: Asking rents are expected to decrease 1.9 percent to \$1,282 per month in 2009, and effective rents are projected to retreat 3.4 percent to \$1,224 per month.



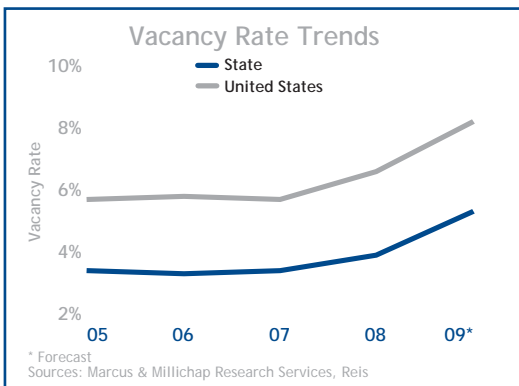
ECONOMY

- ◆ Layoffs persist across New Jersey, with employers thinning payrolls by 140,500 positions during the 12-month period ending in the third quarter, a 3.5 percent contraction. In the previous year, 32,300 jobs were eliminated, a decline of 0.8 percent.
- ◆ Although job losses are expected to extend into 2010, the worst is likely over. From November 2008 to April 2009, an average of 16,000 jobs were shed each month. Since then, however, cuts have averaged approximately 8,800 positions per month.
- ◆ Downsizing efforts have been pronounced in New Jersey's office-using employment sectors, where 56,100 jobs have been trimmed over the past 12 months, a 5.8 percent decrease. In the preceding year, 18,700 white-collar positions were eliminated.
- ◆ The state's unemployment rate is currently 9.6 percent, 170 basis points higher than six months ago and 400 basis points more than at this time in 2008.
- ◆ **Outlook:** Despite a milder pace of job losses in the second half, 113,900 workers, or 2.8 percent of the New Jersey work force, will be let go in 2009. Last year, 85,700 positions were eliminated.



CONSTRUCTION

- ◆ The effects of the recession are slowly materializing in the New Jersey construction pipeline, as output has slowed to 1,220 units over the past 12 months. In the previous year, 1,425 apartments were added to inventory.
- ◆ Just 320 units have been delivered in Northern New Jersey during the last year. In the preceding 12 months, 1,075 units came online. Nevertheless, more than 3,200 units are under construction in the area, including as many as 1,200 units that will be completed in the fourth quarter of this year.
- ◆ In Central New Jersey, 900 units have been added to stock since the third quarter of 2008, compared with the addition of 350 rentals in the previous one-year span. The second quarter opening of the 288-unit Bristol Station in Carteret was the region's last completion.
- ◆ Development activity remains limited in the southern portion of the state, as the last major inventory addition occurred in the first quarter of 2007. A 317-unit project in Voorhees is slated to be finished in late 2010.
- ◆ The recession has not dissuaded developers from moving forward on some projects. In the north, there are 960 apartments in planning, while 1,090 units and 350 units are under consideration in Central and Southern New Jersey, respectively.
- ◆ **Outlook:** After 1,740 rentals came online in 2008, 1,620 units will be added to stock statewide this year. Approximately 1,330 units will be delivered in Northern New Jersey, and 290 units will be brought online in the central region.

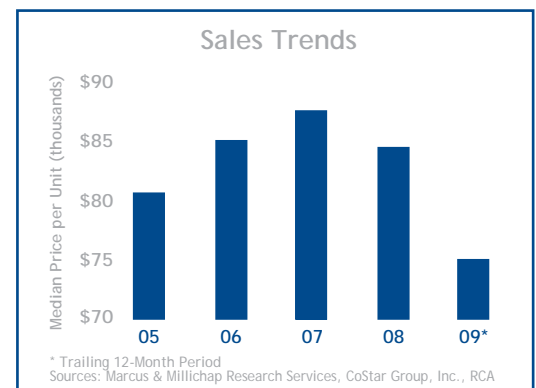
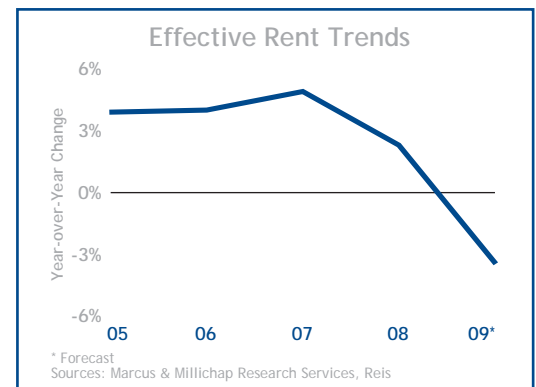
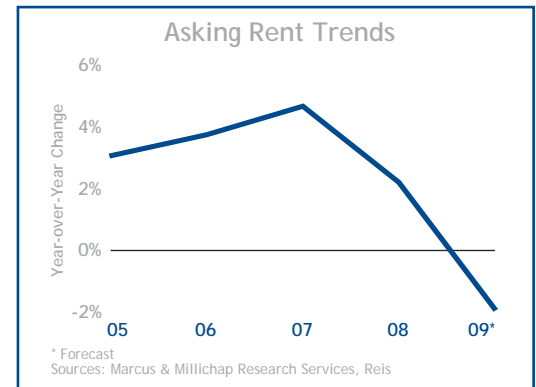


VACANCY AND RENTS

- ◆ Apartment demand is easing in response to job losses and slower household creation. Consequently, statewide vacancy rose 130 basis points year over year to an estimated 4.8 percent in third quarter. Meanwhile, asking rents declined 1.5 percent to \$1,287 per month, and effective rents dropped 2.9 percent to \$1,233 per month.
- ◆ In Northern New Jersey, vacancy has increased 150 basis points to 5 percent in the last year, compared with a 10 basis point uptick in the previous 12 months. Asking rents have slipped 2.2 percent to \$1,482 per month, while effective rents have receded 3.9 percent to \$1,422 per month. In the preceding one-year stretch, asking and effective rents appreciated 3.0 percent and 3.8 percent, respectively.
- ◆ Vacancy in the central section of the state has risen 90 basis points to 3.8 percent in the past 12 months, after improving 30 basis points in the previous year. Asking rents have dipped 0.7 percent to \$1,147 per month during the last year, while effective rents have fallen 1.7 percent to \$1,102 per month. In the preceding 12 months, asking rents increased 2.8 percent, and effective rents pushed up 2.7 percent.
- ◆ The average vacancy rate in Southern New Jersey climbed 210 basis points year over year to end the third quarter at 7.4 percent. A 120 basis point increase was recorded in the previous annual period. Asking rents have inched 0.4 percent higher to \$940 per month in the past year, though effective rents have slipped 0.4 percent to \$885 per month. In the preceding 12 months, asking and effective rents gained 4.2 percent and 3.3 percent, respectively.
- ◆ **Outlook:** This year, vacancy is forecast to rise 140 basis points to 5.3 percent. Asking rents are expected to decrease 1.9 percent to \$1,282 per month, and effective rents are projected to retreat 3.4 percent to \$1,224 per month.

SALES TRENDS**

- ◆ Falling NOIs and economic uncertainty are weighing on investment demand. In the past 12 months, statewide deal flow has declined 43 percent, while the median price has dropped 15 percent to \$75,000 per unit. In the previous year, sales velocity increased 23 percent, and the median price appreciated 17 percent.
- ◆ Bolstered by consistent sales activity in Hudson County, velocity has slowed just 30 percent in Northern New Jersey during the past year, although the median price has retreated 16 percent to \$73,280 per unit.
- ◆ Significantly fewer deals in Monmouth and Mercer counties have contributed to a 61 percent year-over-year decline in sales in the central portion of the state. The median price has fallen 16 percent in that time to \$91,500 per unit.
- ◆ Although most apartment sales in Southern New Jersey continue to be recorded in Camden and Burlington counties, an 86 percent decline in deal flow in these areas has contributed to 78 percent decline in regional sales velocity over the past 12 months. Meanwhile, prices have held steady, typically in the mid-\$60,000 per unit to low-\$70,000 per unit range.
- ◆ **Outlook:** An uptick in foreclosure initiations is expected to yield investment opportunities in distressed assets in Hudson, Essex and Union counties. Fire-sale expectations are unrealistic, though, as many of these sales will be due to overextended owners, rather than negative cash flows.



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

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CAPITAL MARKETS

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- ◆ Compared to other core property sectors, apartments have fared best due to the availability of financing through government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac. Recent modifications to GSE guidelines will impact lender decisions, however, as borrower requirements include more substantial apartment ownership experience.
- ◆ Loan-to-value requirements range from 55 percent to 75 percent. Portfolio lenders are issuing loans at all-in rates of 6.00 percent to 6.75 percent for a five-year term and 6.9 percent to 8.0 percent for a 10-year term. Rates among agency lenders are roughly 100 basis points to 150 basis points lower. The government's creation of a conservatorship for Fannie Mae and Freddie Mac has most likely boosted confidence in the two GSEs, putting downward pressure on rates, but it also creates several near-term uncertainties, as the conservatorship is due to expire at the end of the year.
- ◆ Delinquencies will rise further as a wave of maturities approaches; however, at-risk borrowers may find lenders amenable to loan extensions/modifications. Furthermore, Freddie Mac is under way on its second securitization of multi-family debt this year, and the government's TALF program is expected to at least provide a much-needed spark to the traditional CMBS market.

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%	30	\$1,117	0.4%
2	Northwest Middlesex County	2.3%	20	\$1,201	-3.5%
3	Southwest Middlesex County	3.1%	20	\$1,125	-4.3%
4	East Middlesex County	4.0%	70	\$1,134	-1.6%
5	Shore	4.1%	220	\$1,063	-1.1%
6	Somerset County	4.7%	20	\$1,191	-0.8%
7	Ocean County	4.8%	20	\$926	-1.6%
8	Trenton	5.1%	110	\$930	0.1%
9	West Monmouth County	6.3%	410	\$1,037	-2.4%

NORTH JERSEY VACANCY RANKING

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Hudson County	3.3%	60	\$2,448	-4.6%
2	Passaic County	3.7%	70	\$1,184	-2.9%
3	Morris County	4.3%	180	\$1,157	-2.1%
4	Union County	4.7%	200	\$1,094	-4.8%
5	West Essex County	4.8%	220	\$1,443	-2.7%
6	Bergen County	5.2%	200	\$1,498	-3.8%
7	Newark/Orange/East Essex County	7.8%	170	\$849	-3.8%

SOUTH JERSEY VACANCY RANKING

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Burlington County	5.1%	100	\$844	-0.2%
2	Gloucester County	5.4%	40	\$873	1.5%
3	Camden	6.5%	120	\$834	0.3%
4	Camden West	7.4%	390	\$831	0.4%
5	Moorestown/Maple Shade/Mt. Laurel	8.2%	210	\$937	-2.4%
6	Cherry Hill/Eversham/Medford	10.9%	40	\$1,050	-1.4%

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, TWIR/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.