INVESTMENT FORECAST

Retail

Northern New Jersey

IPA INSTITUTIONAL PROPERTY ADVISORS

2022

Deliberate Development Bolsters Property Performance; Investors Stick With Proven Tenants

Muted supply growth benefits long-restrained revenue growth. While Northern New Jersey's job recovery is making headway, a substantial gap remains between employment growth projections and the pre-pandemic total; metro incomes, however, are still some of the nation's highest, fueling large amounts of discretionary spending. Despite subdued workforce expansion, retail sales surged last year and are expected to stay elevated throughout 2022. In addition to heightened consumer purchases, fundamentals are backstopped by the record-low amount of space delivered in 2021. While higher, this year's construction pipeline is still conservative, as developers remain vigilant of the risks of oversupply. A leaner pipeline may be particularly beneficial, as the long-term growth of asking rents in Northern New Jersey has been more subdued, in comparison to nearby markets. Despite this, one of this year's largest community centers delivers to Union County, where the average asking rent for multi-tenant assets has remained near $20 per square foot since the onset of the financial crisis.

With some aspects of recovery incomplete, investors are drawn to small suburban assets. After slowing due to the health crisis, sales of multi-tenant assets in 2021 remained far under levels reported in prior years, mostly due to a sharp drop in mixed-use trades along the Hudson Waterfront. Deal flow in the subsector slowed to a third of the pre-pandemic rate, as multifamily renter demand was highly impacted by the health crisis. As health conditions improve and CBDs become more attractive for renters, increased bidding for these assets will likely occur. On the single-tenant side, sales velocity returned to pre-pandemic norms. Transactions involving high-credit occupants are providing investors with yields in the mid-5 percent to 6 percent range, though national food service brands are observing returns in the mid-4 percent or even high-3 percent zone. These brands' ability to adapt to previous lockdown circumstances has affirmed the bondlike nature of these investments, and they should withstand negative pressure from potential COVID-19 variants.

2022 Market Forecast

Employment up 2.4% — While the metro adds 50,000 jobs in 2022, it will end the year roughly 90,000 positions short of pre-pandemic employment.

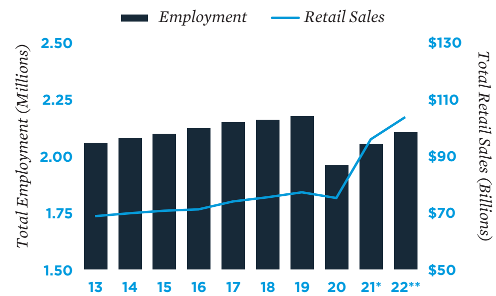
Construction 515,000 sq. ft. — After growing by just 260,000 square feet in 2021, inventory is projected to expand at an increased rate in 2022. Still, delivery volume trails the prior five-year average by 360,000 square feet.

Vacancy down 10 bps — Growing retail demand, in concert with this year's sluggish delivery pace, results in another year of vacancy compression. Availability declines to 4.3 percent.

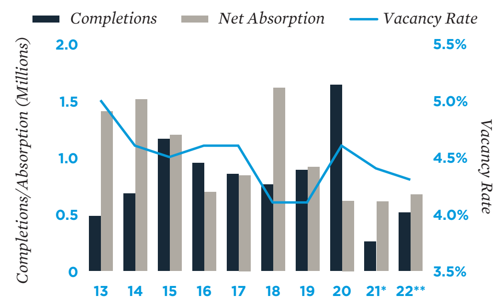
Rent up 3.1% — The average rent gain tapers from last year's 5 percent increase, but asking rents maintain upward momentum in response to space demand, reaching an average of $26.20 per square foot.

Investment — Potential legislation surrounding an effective multifamily rent cap in New York may push some buyers west of the Hudson, increasing bidding for mixed-use properties.

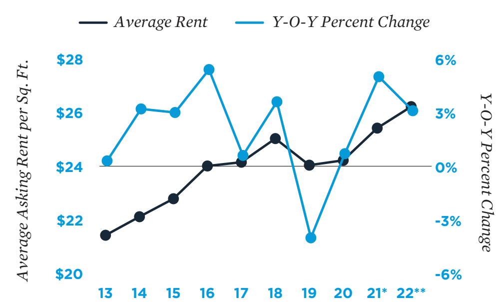
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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