MARKET REPORT

Multifamily

Northern New Jersey Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

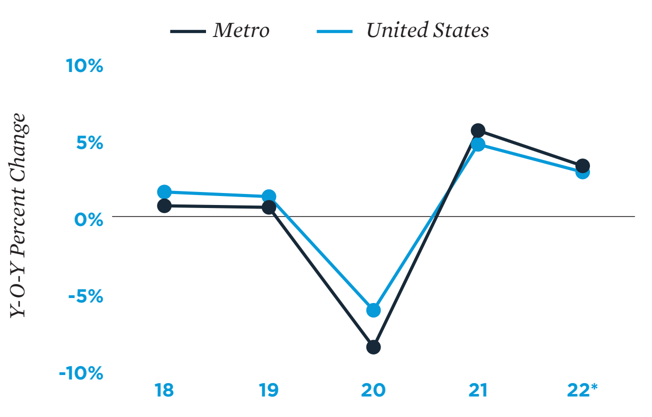
3Q/22

Renter Demand Remains Robust, but Greater Development Will Weigh on Availability

Region's corporate employers foster solid long-term renter base. As the worst of the health crisis moves further into the rearview, an increasing number of firms on both sides of the Hudson are transitioning employees back to the office, which should furnish demand for units within commuting distance of urban centers. Additionally, the state government is seeking to establish New Jersey as a Fintech innovation hub. Tax incentives have already prompted firms like Fiserv to institute operations in the region, contributing a number of high-salaried positions to the market. Expectations for similar firms to establish local operations should provide a strong demand backstop as the region reports some population attrition.

Supply wave to weigh on vacancy, despite solid second quarter. Spanning March through June, Class A vacancy fell 80 basis points, entering July at 5.8 percent — the lowest measure in this metric in nearly a decade. Contributing to this, the metro's median home price rose 40 percent since the onset of the pandemic. As renting has become a more financially appealing option for many households, Class A complexes are expected to generate stronger demand in the coming years. Nevertheless, accelerating supply additions will create headwinds in the latter half of the year, particularly in the luxury segment. As of August, more than 30,000 units were scheduled for completion before 2025. Developers are targeting commuter corridors and the Hudson Waterfront, which may translate to heightened concessionary activity here in the near term.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2022 Outlook

70,000 JOBS *will be created*

EMPLOYMENT:

Though hiring velocity is predicted to ease in the latter half of 2022, the market's job base will nevertheless expand by 3.3 percent this year. The metro's job count will close 2022 roughly 13,000 positions below the pre-pandemic recording.

14,000 UNITS *will be completed*

CONSTRUCTION:

Developers are on track to finalize the largest amount of doors in multiple decades, expanding supply by 3.3 percent. One-third of stock scheduled for 2022 completion is located within the limits of Newark or Jersey City.

30 BASIS POINT *increase in vacancy*

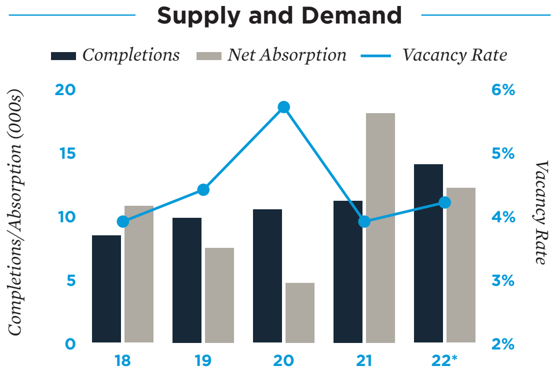
VACANCY:

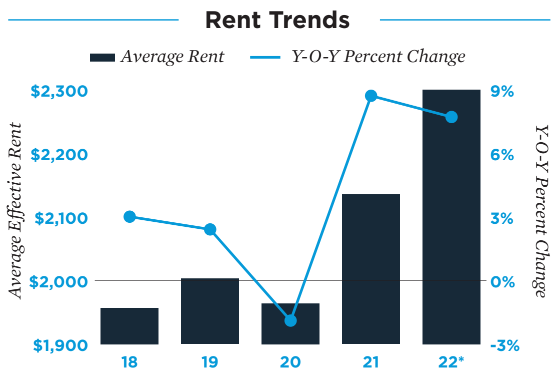
The rapid pace of stock expansion and renters coping with an elevated inflationary environment will bring vacancy to 4.2 percent at the end of the year. Class A availability is expected to be impacted the most by new supply.

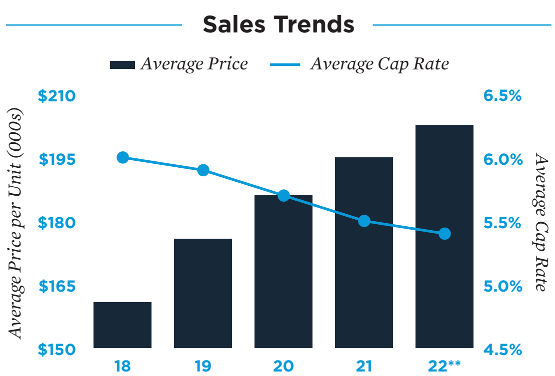
7.7% INCREASE *in effective rent*

RENT:

Following last year's 8.7 percent increase, Northern New Jersey will mark a second consecutive year of rent growth in excess of historical averages. Accordingly, the mean effective rent will close 2022 at $2,300 per month.







** Forecast ** Through 2Q*

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

2Q 2022 - 12-Month Period

CONSTRUCTION

11,772 units completed

- Completions have been ticking up on an annual basis since 2018, as inventory grew 2.9 percent during the 12-month period ended in June.
- Hudson and Union counties marked the most aggressive rates of stock transformation, with apartment counts in these submarkets expanding by 5.0 percent and 3.1 percent during this period, respectively.

VACANCY

90 basis point decrease in vacancy Y-O-Y

- Availability held in the upper-3 percent zone for much of the 12-month span preceding July, closing out this period at 3.7 percent.
- Class B units were the only tier reporting higher vacancy by the end of June, with a 30-basis-point increase driving availability in this segment to 4.3 percent. Both Class A and C vacancies entered July at multiyear lows.

RENT

11.3% increase in the average effective rent Y-O-Y

- Northern New Jersey saw all-time high rent growth during the trailing year ended in June, as the mean effective rent reached $2,269 per month.
- Notable vacancy compression in the Class A segment has translated to record rent gains in this tier. As of July, annual growth in luxury units registered at 15.9 percent, bringing the average rent to $3,255 per month.

Investment Highlights

- Rapid vacancy compression, in tandem with rent recovery last year, supported a notable rise in deal flow over the yearlong period ended in the second quarter. As of July 2022, transaction velocity during the trailing year eclipsed the previous 12-month record by 10 percent. Bidding activity brought average per-unit pricing during this interval to $202,700, representing a more than 6 percent gain over the preceding span, an increase in line with pre-pandemic price growth.
- Strong investor competition for available listings pushed the average cap rate down 20 basis points during the recent span, bringing the mean yield into the low-5 percent band. Relative to nearby metros with similar volumes of multifamily inventory, including Boston, Philadelphia and Washington, D.C., the metro has the highest average cap rate by a small margin.
- Bergen County and Morris County are tied for the lowest Class A vacancy rates in the metro at 3.1 percent, which helped both submarkets post upper-tier rent growth exceeding 13 percent during the past year. More institutions could tune into these areas, given the strong recent performance. Investors with a preference for mid-tier assets may focus on Passaic County, which boasts the market's tightest Class B vacancy at 2.1 percent.

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