

# MARKET REPORT

Retail  
Northern New Jersey Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

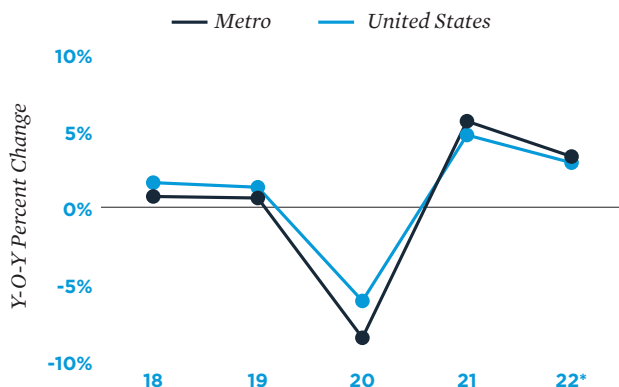
3Q/22

## Higher Incomes Mitigate Consumer Attrition as Builders Eye Office Sites for Redevelopment

**Robust spending bolsters retail performance.** As national consumer sentiment falters in response to rapid price gains, Northern New Jersey's high median income has proved to be a solid backstop for demand. During the second quarter of 2022, the market posted the fastest retail sales growth among major U.S. metros. A 12.9 percent jump in consumer spending kept this metric well ahead of the contemporary inflation rate. Whether this pace continues amid easing hiring velocity is unclear, but local retail properties are well-positioned to withstand potential headwinds. A slowdown in construction starts since 2020 should support leasing among existing assets.

**Mixed-use retail opportunities grow as traditional pipeline thins.** Completions exceeded 50,000 square feet during just one of the last four quarters entering July, and market inventory is expected to grow by the slowest pace in nearly a decade this year. Nevertheless, the market is replete with vintage suburban offices that could alter the local retail landscape. In Morris and Passaic counties, office vacancy at the end of the second quarter approached levels last seen in the aftermath of the Financial Crisis. Owners of underperforming office assets are increasingly looking to transformative redevelopment strategies to attract tenants. Some of these initiatives take inspiration from nearby Bell Works, adjoining flex and retail space to a heavily-reduced office footprint. However, other owners of larger single-tenant office campuses are eschewing this space entirely when redeveloping their assets, focusing heavily on retail.

### Employment Trends



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Retail 2022 Outlook



**70,000  
JOBS**

*will be created*

### EMPLOYMENT:

Recovery is still underway in hard-hit sectors, with leisure and hospitality positions constituting nearly 40 percent of the job growth observed as of August. Northern New Jersey's employment base is on track to expand by a solid 3.3 percent in 2022.



**500,000  
SQ. FT.**

*will be completed*

### CONSTRUCTION:

A 0.3 percent supply expansion places annual inventory growth at the slowest rate since 2013. Completions have been meager through midyear, as most of this year's space is scheduled for delivery in the latter half of 2022.



**10  
BASIS POINT**

*decrease in vacancy*

### VACANCY:

Availability tightens to 4.0 percent, paralleling previous fourth quarter lows achieved in the two years preceding the health crisis. So far in 2022, single-tenant properties have led the market in net absorption.



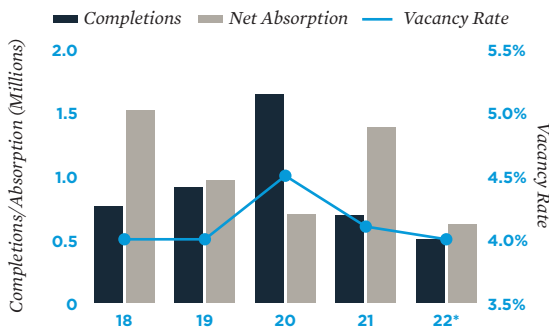
**3.3%  
DECREASE**

*in asking rent*

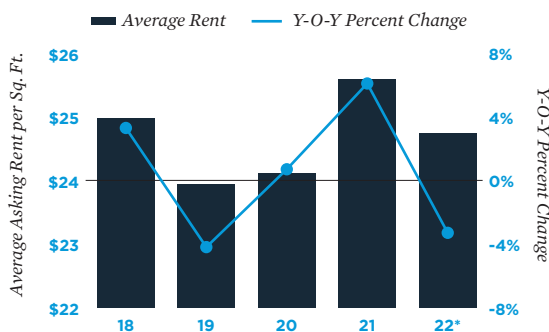
### RENT:

Though availability is expected to contract this year, marketed rents will decrease to \$24.75 per square foot, marking the first year-end decline since 2019. This may stem from a growing proportion of lower-tier space currently on the market.

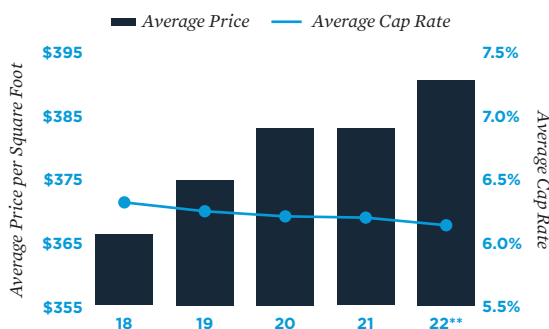
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

## 2Q 2022 - 12-Month Period



### CONSTRUCTION

**266,000 sq. ft. completed**

- Construction starts have noticeably decreased since the onset of the pandemic. The trailing five-year completion average preceding 2021 exceeded 1 million square feet, and is not expected to breach this in the near term.
- Less than 30,000 square feet of multi-tenant space came online during the 12-month period ended in June, the smallest amount since 2013.



### VACANCY

**50 basis point decrease in vacancy Y-O-Y**

- Metrowide vacancy hit a record low of 3.8 percent during the first quarter of this year, but rose slightly to enter July at a still tight 4.0 percent.
- Though deliveries favored single-tenant properties this period, the segment led compression with a 70-basis-point drop to 3.5 percent. Availability in the multi-tenant sector was unchanged at 5.9 percent.



### RENT

**1.1% increase in the average asking rent Y-O-Y**

- Overall growth during this period was driven by gains in Union and Hudson counties, where marketed rents grew by 10.7 and 7.9 percent, respectively. The metro's mean asking rent ended June at \$24.89 per square foot.
- Marketed rents declined in the market's four other counties, which reported drops ranging from 0.4 percent in Essex to 7.5 percent in Passaic.

## Investment Highlights

- Of the past four quarters ended in June, two observed the highest transaction velocity reported in the market for a three-month period. Records were achieved in both the single- and multi-tenant segments, with overall deal flow roughly 18 percent above the previous high.
- Robust consumer spending gains as local municipalities loosened health restrictions last year facilitated an enthusiastic buyer pool, helping to break pandemic-induced pricing attrition. The average price per square foot during the 2021 calendar year was \$383, unchanged from the previous period. However, transactions during the trailing 12-month period ended in June averaged at \$390 per square foot, indicating that investor sentiment has improved thus far in 2022.
- The return of foot traffic to more urbanized areas of the metro drew capital back to the Hudson Waterfront and Newark. Of particular note are these locales' selection of residential buildings with ground floor retail, which saw a spike in vacancy due to the pandemic. As the metro moves further from health crisis lows, these properties are increasingly popular among investors in the sub-\$5 million price tranche.

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. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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