

MARKET REPORT

Multifamily

Northern New Jersey Metro Area

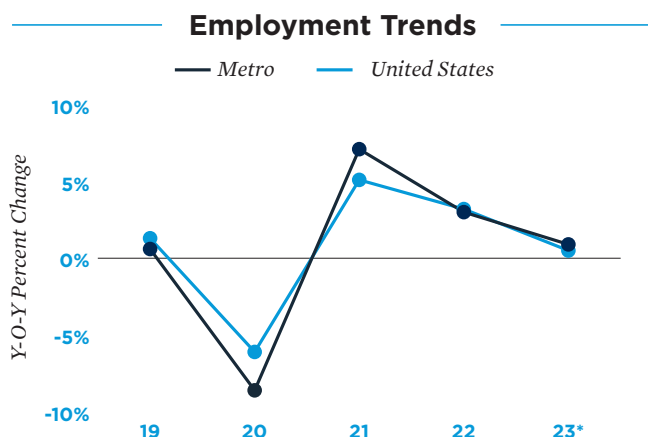
IPA INSTITUTIONAL
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ADVISORS

2Q/23

Northern New Jersey's Vacancy Rate is Uniquely Holding Below Pre-2020 Level

Positive net absorption streak extends to 37 quarters. While many other markets across the country have seen a wave of units vacated across the past nine months, Northern New Jersey's apartment sector has remained resilient. At least 1,000 units were absorbed on net in every quarter dating back to the halfway point of 2020, and the metric has been positive in each period since late 2013. One key factor contributing to Northern New Jersey's strength is that it continues to benefit from the remote work prevalence in New York City. Employees are choosing to live in the metro and enjoy an average rent that trails New York City by roughly \$500 per month. The longevity of this trend is uncertain, given that more firms could call workers into offices, but local performance that predates this movement reinforces optimism. A sizable construction pipeline scheduled to finalize across the final nine months of 2023 will nevertheless lift vacancy. The rate will hold below 2019, however, making Northern New Jersey the only major U.S. market to achieve that feat.

The remainder of 2023 includes notable supply. Completions during the opening three months of this year were mild, with Northern New Jersey logging its smallest quarterly delivery volume since 2019. That pace will be short-lived, however, as about 10,300 rentals are expected to finalize across the final nine months, a total that nearly matches all of 2022. Union County has the largest slate at roughly 2,400 units projected to open, supported by the area logging a 140-basis-point year-over-year vacancy drop through March.



* Forecast

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

Multifamily 2023 Outlook



**20,000
JOBS**

will be created

EMPLOYMENT:

Entering April, employment growth was recorded in 34 of the last 35 months, producing a headcount that exceeds 2019's peak by about 26,000. Attrition in the professional and business services sector is being offset by education and health services gains.



**12,000
UNITS**

will be completed

CONSTRUCTION:

Northern New Jersey will register its largest annual delivery volume since 2017, warranted by a vacancy rate that has held much tighter than most of the country. Outside of Union County, Jersey City and Newark have the largest local construction pipelines.



**60
BASIS POINT**

increase in vacancy

VACANCY:

Vacancy will rise for the first time in three years amid considerable new supply and a softening economy. Still, the metro's availability rate of 4.0 percent at year-end stays below 2019 and the local trailing-decade average, contrasting the national trend.



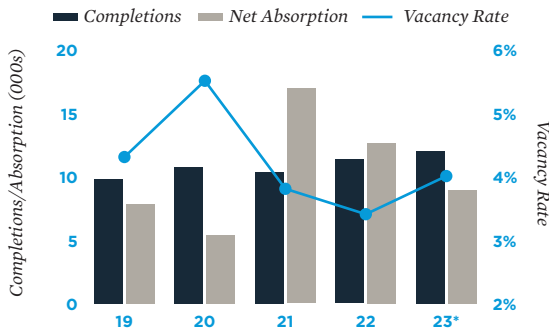
**2.2%
INCREASE**

in effective rent

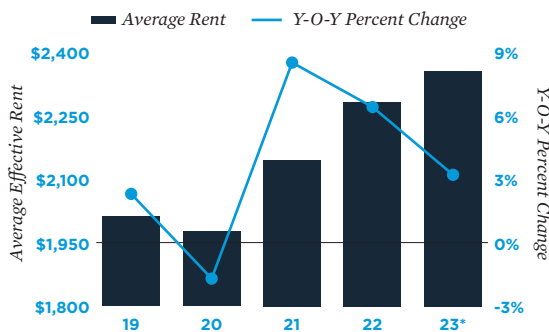
RENT:

While the pace of rent growth will be much slower than the 7.5 percent annual average logged across the past two years, the rate of increase exceeds the market's historic mean of 1.8 percent. The average effective rent will climb to about \$2,355 per month.

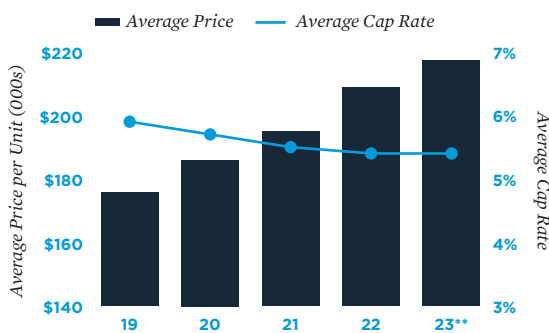
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

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

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Price: \$250

1Q 2023 - 12-Month Period

CONSTRUCTION

9,513 units completed

- Morris County's rental inventory grew by the second-fastest pace marketwide over the past 12 months, yet it retained the second-lowest vacancy rate. Conditions should remain tight here as the pipeline has thinned.
- Builders are passive in Passaic County. The area had supply expansion below 1.5 percent over the past year, with only 500 units in the 2023 pipeline.

VACANCY

10 basis point decrease in vacancy Y-O-Y

- Northern New Jersey is one of just two major U.S. markets where availability fell year-over-year through the first quarter. Additionally, it is among the only three major metros with a vacancy rate of 3.5 percent or lower.
- Passaic County laid claim to both the market's lowest Class A and Class B vacancy rates in March, at 3.8 percent and 1.2 percent, respectively.

RENT

5.5% increase in the average effective rent Y-O-Y

- While Northern New Jersey has largely outperformed the country in terms of its vacancy rate, rent growth has been middle-of-the-pack. The local average effective rent increased to \$2,315 per month in March.
- Two counties — Hudson and Passaic — achieved both Class A rent growth above 6 percent and a Class B rent gain exceeding 5 percent.

Investment Highlights

- Deal flow continued to fall quarter-over-quarter during the January through March period of 2023. Financing hurdles and buyer/seller disconnect amid a rapid series of interest rate hikes is complicating the deal-making process. Northern New Jersey's impressive performance metrics relative to other major markets should nevertheless strum up trading once conditions stabilize. The Federal Reserve has indicated a more measured approach in regard to interest rate movement going forward, which should help ease challenges by providing clarity for lenders and investors.
- Investor appetite for Class A/B apartments plunged since the mid-point of 2022. A few newly-built or recently renovated assets changed hands late in the first quarter, however, signaling a potential return of segment trading. Institutions scouting the pipeline to evaluate supply trends will note that an outsized share of development is headed to Union County, particularly the townships of Union, Berkeley Heights and Scotch Plains.
- Passaic County's strong performance and mild construction pipeline should generate greater investor attention. The submarket had Northern New Jersey's lowest vacancy rates across all three apartment tiers as of the first quarter, and also led the metro in overall rent growth during the past year.

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; RealPage, Inc.