

MARKET REPORT

Multifamily

Northern New Jersey Metro Area

IPA INSTITUTIONAL
PROPERTY
ADVISORS

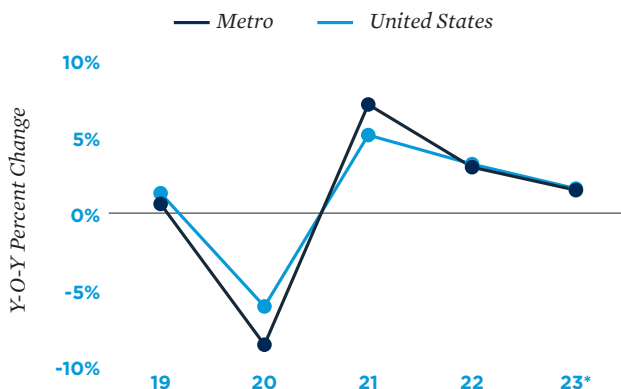
3Q/23

New Supply Warranted by Last Year's Outstanding Performance Eclipses Softer Apartment Demand

Supply additions rapidly accelerate. Northern New Jersey proved resilient last year when it was the only major Northeast metro to record vacancy contraction. That strength, however, encouraged developers to ramp up activity, creating a near-term supply pace that is surpassing normalizing apartment demand. The 4,400 units completed from April through June 2023 marked the largest addition in 23 quarters. Even amid healthy absorption levels, that activity increased the market's total vacant stock by 1,900 units during those three months. The forward-looking pipeline is substantial as well, with about 5,800 units expected to finalize during the second half of 2023 and almost five times that amount underway with scheduled completion dates extending into 2026. Vacancy entered the year at a historically tight figure, providing some breathing room; however, performance metrics will continue to soften in the coming quarters.

Mid-tier segment notes the sharpest recalibration. Despite supply pressure, Class A vacancy was up just 20 basis points year-over-year in June, benefiting from elevated barriers to homeownership. The Class C rate adjusted by a smaller 10 basis points and remained exceptionally tight at 2.5 percent locally. Headwinds have been more pronounced in the Class B segment, which noted a 100-basis-point annual vacancy jump. Hudson and Morris counties were at the forefront of this trend. Here, mid-tier rents grew faster than Class A rates over the past year, likely prompting some tenants to move up. This dynamic may continue if new Class A supply induces concessions.

Employment Trends



* Forecast

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

Multifamily 2023 Outlook



**33,000
JOBS**

will be created

EMPLOYMENT:

Employers added an average of 3,000 jobs on net across the first seven months of 2023. The recent June and July gains were the lowest so far this year, however, signaling an expected second half hiring ease that results in 1.5 percent annual growth.



**11,800
UNITS**

will be completed

CONSTRUCTION:

The Northern New Jersey region is on track to register its largest annual delivery volume since 2017, with metro inventory slated to grow by 2.7 percent. Essex County led the market in completions during the first half and remains active for development.



**110
BASIS POINT**

increase in vacancy

VACANCY:

After being one of just two major U.S. markets to post a vacancy decline in 2022, Northern New Jersey's rate moves back in-line with the pre-pandemic 2019 figure this year. Vacancy rises to 4.5 percent, with Class B units pulling up the average.



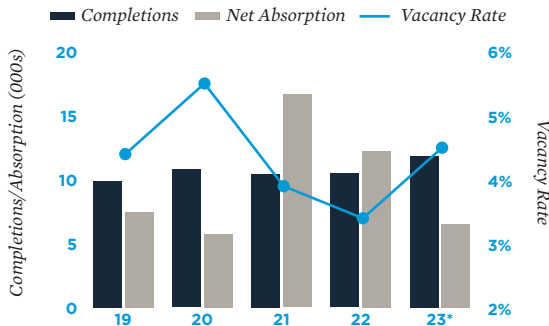
**4.1%
INCREASE**

in effective rent

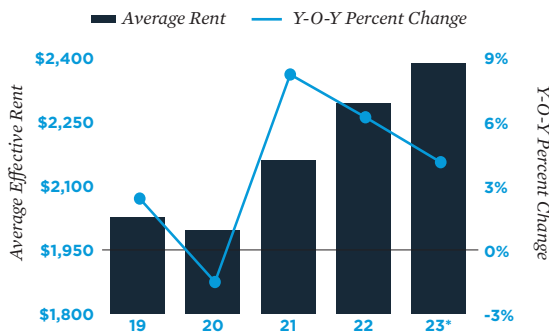
RENT:

Substantial new supply and sub-5 percent vacancy for a third straight year bolster sustained upward rent momentum. The average effective rate climbs to \$2,385 per month, tied for the seventh-fastest lift among major U.S. markets in 2023.

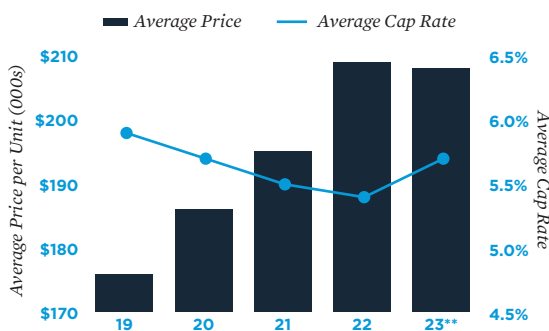
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

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

IPA Multifamily
John Sebree

Senior Vice President, Director
Tel: (312) 327-5400 | jsebree@ipausa.com

IPA Multifamily Research

Greg Willett
First Vice President
Tel: (972) 755-5200 | gwillett@ipausa.com

Price: \$250

2Q 2023 - 12-Month Period

CONSTRUCTION

9,868 units completed

- All six counties comprising Northern New Jersey recorded supply growth to some degree over the past year ending in June. Inventory expansion exceeded 3 percent in Essex and Bergen counties.
- Morris County tied for the slowest construction pace over the past 12 months, helping it maintain Northern New Jersey's tightest vacancy rate.

VACANCY

40 basis point increase in vacancy Y-O-Y

- Vacancy fell by 30 basis points year-over-year in Hudson County, which contains over one-third of marketwide stock. Resilience in Northern New Jersey's largest submarket helped offset weakness in other areas.
- Essex and Passaic counties had vacancy lifts exceeding 120 basis points. The latter area nevertheless held the metro's second-lowest rate in June.

RENT

3.6% increase in the average effective rent Y-O-Y

- Rent growth was relatively consistent across the metro, with all six counties recording annual gains within the 2.5 to 5.5 percent range. Passaic County ranked at the top end, while Essex County trailed the pack.
- The marketwide mean effective rent rose by 3.1 percent in the first half of 2023, a welcome sign after the metric dipped in last year's fourth quarter.

Investment Highlights

- Conservative lending and higher interest rates have been a weight on multifamily deal flow both locally and across the country. Trading activity in Northern New Jersey was down about 65 percent during this year's first half relative to the same span of 2022, compared to a national reduction closer to 55 percent. Northern New Jersey's sharper interruption has predominantly been linked to a massive institutional-level lull in deal flow. Assets priced above \$20 million changed hands about 80 percent less frequently during the opening six months of 2023 than they did last year.
- After a span of uncertainty, buyers and sellers are beginning to find common ground. This is reflected in Northern New Jersey's average cap rate rising 30 basis points to 5.7 percent on trades completed during the yearlong period ending in June 2023. The mean sale price, on the other hand, was comparatively firm at \$208,000 per unit. Rising cap rates and stable pricing imply that net operating incomes are holding up relatively well.
- Preliminary April through July data indicates that Greater Newark and surrounding areas of Essex County are the primary investment focal points. New supply here should present institutions with acquisition opportunities.

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.