

Newark, New Jersey

Multifamily Housing Update

May 2008



To register for free access to RED's full research reports, please [click here](#).

EXECUTIVE SUMMARY

The economic downturn that began last August gradually tightened its grip on the Newark / Northern New Jersey metro area. Employment growth slowed to a trickle in 1Q08, falling to a 1,100-job, 0.1% pace from the 4,700-job, 0.5% rate recorded in 3Q07. Total payrolls in March were no higher than in the same month of 2007, representing the first zero year-over-year growth comparison observed in two years.

At 3.3%, the rate of unemployment in March remained well below the 5.2% national average. Nevertheless, the metro rate was up 90 basis points from March 2007, comparing unfavorably to a 70 bps rise in U.S. unemployment in the same period.

Weakness in the retail and financial sectors was largely responsible. Belt tightening by consumers contributed to the exit of major retail tenants, including Levitz Furniture, the Rag Shops and CompUSA, which in turn produced a 1,300-job, -1.0% y-o-y decline in retail trade payrolls. Likewise, the sub-prime tremors felt on Wall Street gave rise to a series of front and back office job cuts at banks, contributing to a 900-job, -1.1% decline in finance sector employment.

With little economic momentum to carry it forward during the national downturn, the Newark MSA may see a net payroll employment decline in 2008, as was the case in 3 of the previous 5 years. But the **RED Research** econometric model doesn't foresee it. The model forecasts 2,000-job and 3,000-job advances in 2008 and 2009, respectively. Confidence intervals are 0 to 5,000 jobs and 0 to 6,000 jobs.

Job losses by retail trade and back office finance personnel contributed to a weak leasing environment in the class-B&C apartment sector. While class-A properties benefited from consumer reluctance to purchase homes in a

weak price environment (luxury properties absorbed 268 units in 1Q), the lower tier lost a net of 810 tenants, precipitating a 50 basis point decline of B&C occupancy to 96.2%. Overall, vacant inventory increased by 850 units, after negative net absorption of 543 units, completion of a 90-unit property in Bergen County and a 217-unit condominium *reversion* in Hudson County. Consequently, the metro vacancy rate increased 40 bps to a 3-year high 3.6%.

Effective rent growth moderated from 4Q07's sturdy \$15 (1.1%) advance to a gain of \$12 (0.8%) in 1Q08. A weak year-ago comparison boosted y-o-y growth to 5.6%, however, the highest figure recorded in 7 years. Pricing power was unevenly distributed, as owners in Morris and Hudson Counties achieved sequential gains equal to 1.4% and 1.2%, respectively, while Passaic and Essex Co. projects experienced flat or declining rents.

Reis expect average metro occupancy to fall another 20 bps by year-end to 96.2%. The service forecasts a commensurate slowdown in rent growth to 3.8% for the year, with further deceleration anticipated in 2009-2010. By contrast, **RCR's** internal rent model is considerably more optimistic, pointing to gains of 5% or greater.

Recent trades demonstrate a growing global interest in Newark assets. About one-third of buyers now come from out-of-state or offshore. Demand for institutional quality apartments is so strong that the NCREIF metro cap rate index compressed from 6.5% in 1Q07 to 5.0% in 4Q.

The acquisition of Courtyard at Jefferson at an estimated 4% cap rate suggests that prices can rise further as buyers scramble to accumulate NYC-area assets. **RCR** recommend acquiring Newark assets, but at *opportunistic* prices. Yields now may be too low.

SNAP SHOT

	Y-o-y change	Projected 2008
Vacancy (3.6% - 1Q08)	↑ 20 bps	↓ 10 bps
Effective Rents (\$1,453 - 1Q08)	↑ 5.6%	↑ 3.8%
Cap Rate (6.1% - 1Q08)	↑ 130 bps	↑ 30 bps
Employment (1,023.2m - 1Q08)	↑ 3.2m	↑ 2m

KEY POINTS

- Job creation slowed to a trickle in 1Q08. Metro payrolls increased at a 1,100-job, 0.1% pace, down significantly from the 4,700-job, 0.5% rate recorded in 3Q07.
- The slowdown was primarily attributable to job losses in retail trade and finance.
- **RED** expect job growth to stabilize in 2H08. Monthly average payrolls will rise by about 2,000 jobs this year. Metro growth should accelerate moderately in 2009.
- Class-B&C apartments lost 850 net tenants in 1Q08, resulting in a 50 bps vacancy rate increase to 3.8%. Demand for class-A apartments remained brisk, but absorption in this sector could not offset losses in the second and third tiers. Average metro vacancy overall increased 40 bps to 3.6%.
- Class-B&C rents increased only \$2 (0.2%) sequentially in 1Q08. By contrast, class-A rents continued their rapid ascent, rising \$25 (1.2%) to \$1,934. Overall, effective rents rose 0.8% sequentially and 5.6% y-o-y. The latter metric was the fastest over-the-year advance observed in seven years.
- Accumulate Newark at *opportunistic* prices.