

Central New Jersey

Multifamily Housing Update

July 2011

EXECUTIVE SUMMARY

While economic recoveries were well underway in the New York and Philadelphia metropolitan areas during the spring, the Central New Jersey (CNJ) labor market struggled to follow suit. Edison-New Brunswick, NJ metropolitan division total payrolls declined at a 1,600-job, -0.2% annual pace during 1Q11, comparing unfavorably to the nation's 0.9% average gain and respective 0.8% and 1.0% advances in New York and Philadelphia.

Job losses were largely attributable to weak conditions in the goods producing and business service industries as well as layoffs at all levels of government. Attrition in the construction, manufacturing and wholesale trade sectors proceeded at an aggregate 2,900-job, -2.0% year-over-year rate, while business service establishments trimmed a net of 3,800 (-2.3%) workers. Government headcounts dropped at a 6,000-job, -4.0% pace, primarily due to efforts to balance yawning state and local fiscal deficits.

By contrast, robust hiring was recorded in the retail, transportation, health care and hospitality service sectors. Food and health care service gains were notable, as establishments in the two sectors added workers at a combined 8,600-job annual rate.

Monmouth County employment trends were commensurate. According to Labor Department Census of Employment and Wages records available through December 2010, total county payroll job counts declined on a year-on-year basis in every month of 2010, generating an average monthly loss of 2,688 (-1.1%) jobs, including a 560-job, -0.2% setback in 4Q10. The foregoing figures compare to -0.6% annual and -0.2% quarterly declines posted for the Edison metro area.

Seasonally-adjusted data were more upbeat, indicating that metro establishments added 13,400 workers to payrolls in January and February. But spring conditions were weaker as 5,700 jobs were lost March to May.

Soft May data notwithstanding, **RED Research** continue to expect total payroll employment to rise (2,700 jobs) in 2011. Faster growth should arrive next year, assuming the recovery remains intact, producing a net of more than 15,000 positions in 2012.

In spite of the weak labor market, demand for CNJ apartment units was exceptional. Tenants absorbed a net of 407 units during 1Q11, up from 122 and -356 units in the previous quarter and year-earlier period, respectively. Indeed, demand was greater in only one January to March period over the previous eleven years.

Average occupancy improved 20 basis points sequentially, rising to 96.3%, ranking CNJ among the top five tightest major markets in the country. Occupancy was above 97% in the Princeton and Northwest Middlesex submarkets and approached that level on the Monmouth shore.

Rents continued to rise at a measured pace. Average metro asking and effective rents increased \$3 sequentially, gaining 0.2% and 0.3%, respectively, to \$1,159 and \$1,122. Submarket trends were mixed. Properties in the highest (Northwest Middlesex) and lowest (Trenton) rent submarkets chalked down near-1% sequential gains, while three areas (Princeton, Shore and Ocean Co.) recorded sequential quarter declines.

Reis expect metro occupancy to continue to rise and metro rents to grow at an above average rate through 2015. With respect to effective rents, the service project 4.3% compound annual growth over the period, 40 bps

SNAP SHOT

	Y-o-y change	Projected 2011
Vacancy (3.7% - 1Q11)	↓ 0.4%	↓ 0.5%
Effective Rents (\$1,125 - 1Q11)	↑ 1.9%	↑ 3.8%
Cap Rate (N/A - 1Q11)	↔	↔
Employment (957.7m - 1Q11)	↓ 4.0m	↑ 2.7m

KEY POINTS

- The Central New Jersey economy continued to lag regional averages during the first quarter 2011. Payroll employment declined at a 1,600-job, -0.2% year-over-year rate during the period, comparing unfavorably to New York, Philadelphia and the nation.
- Conversely, metro area apartment owners encountered healthy space demand. Tenants net leased more than 400 units during 1Q11, the most in a January–March period since 2005, and the second largest first quarter harvest in the 12-year Reis data series.
- Average metro occupancy increased 20 basis points sequentially and 40 bps year-on-year to 96.3%, highest level observed since 2008.
- Effective rents were moderately higher, rising \$3 (0.3%) sequentially and \$21 (1.9%) year-on-year. Reis expect revenue growth to accelerate to 3.8% in 2011; 4.0% in 2012.
- Investors acquired only 3 CNJ multifamily properties valued at \$5 million or more over the past 12 months. The most notable trade involved the purchase of a 415-unit, 2004 construction complex in New Brunswick for \$112.5mm or \$271,000 per unit. Reis estimate a 4.8% going-in yield.



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