



The commercial real estate market in the Northern New Jersey area is a mix of good and bad, strong and weak. The office and apartment markets are seeing strong returns with low prices, the retail and hotel markets seem to be priced high compared to the region, and the industrial market remains stable. However, with the low unemployment rate and a slight population growth expected, the area economy is expected to remain stable or even grow slightly, further increasing demand in the area's commercial real estate market.

Office

- RERC's transaction analysis indicates that the average sale price for Northern New Jersey office properties is \$163 per square foot, lower than the East regional average of \$200 per square foot, but in line with the national average of \$167 per square foot.
- The average capitalization rate for office properties in the area is 6.9 percent, lower than both the regional and national average rates of 7.1 percent and 7.2 percent, respectively.

With a low average sale price and average capitalization rate, the Northern New Jersey office market generally offers a good investment opportunity. In addition, the area is expected to continue to grow and the unemployment rate to stay low, so demand for office space should increase, pushing the average price and value of properties in the area higher.

Industrial

- RERC's transaction analysis shows that industrial properties in Northern New Jersey have an average selling price of \$95 per square foot, slightly higher than the regional average of \$84 per square foot and the national average of \$83 per square foot.

- The transaction-based capitalization rate for industrial properties in the Northern New Jersey area is 7.1 percent, slightly lower than the average regional rate of 7.3 percent and the national average rate of 7.4 percent.

The Northern New Jersey area always has had a strong industrial market, as shown in its higher average price per square foot and lower average capitalization rate. RERC expects demand for industrial space to remain constant, with fundamentals, prices, and capitalization rates close to current levels.

Retail

- RERC's transaction analysis indicates that retail properties in the Northern New Jersey area are selling for \$192 per square foot, higher than the national average of \$169 per square foot, but on par with the East regional average of \$199 per square foot.
- The average capitalization rate for retail properties in Northern New Jersey is 6.8 percent, slightly lower than the regional and national capitalization rates of 6.9 percent.

With a price per square foot well above the national average and a capitalization rate average only slightly

below the regional and national rates, property in the Northern New Jersey area seems to be priced higher than that in other markets. However, fundamentals look to improve with continued low unemployment and increasing population growth.

Apartment

- RERC's transaction analysis shows that Northern New Jersey apartment properties are selling at an average price of \$107,787 per unit, somewhat lower than the East regional average of \$128,020 per unit, but nearly equal to the national average of \$107,833 per unit.

- The average capitalization rate for the Northern New Jersey apartment sector is 5.9 percent, lower than the regional rate of 6.1 percent and the national rate of 6.3 percent.

Although the Northern New Jersey apartment market has an average sale price nearly identical to the national unit average, the capitalization rate is quite a bit lower than the national average, indicating the potential for higher returns and less risk in the market than the national market as a whole. Apartment demand is expected to continue, especially if interest rates increase, as the population grows.

National Transaction Breakdown (Jan. 1, 2006 – Dec. 31, 2006)

	Office	Industrial	Retail	Apartment	Hotel	Total
Volume (in millions)						
<\$2 million	\$2,307	\$4,047	\$4,070	\$5,669	\$220	\$16,312
\$2-5 million	\$3,910	\$5,701	\$6,222	\$5,910	\$926	\$22,668
>\$5 million	\$155,131	\$32,581	\$50,896	\$87,663	\$33,689	\$359,961
All	\$161,348	\$42,328	\$61,188	\$99,242	\$34,835	\$398,942
Unit Price Averages						
<\$2 million	\$103	\$68	\$103	\$92,566	\$53,998	–
\$2-5 million	\$167	\$96	\$216	\$128,810	\$59,767	–
>\$5 million	\$209	\$104	\$250	\$126,410	\$137,649	–
All	\$167	\$83	\$169	\$107,833	\$110,713	–
Median of all	\$137	\$66	\$123	\$86,170	\$82,776	–
Capitalization Rates (All)						
Range	4.7 - 10.5	4.8 - 11	4.4 - 10.4	3.8 - 10.6	5.7 - 12.3	3.8 - 12.3
Average	7.2	7.4	6.9	6.3	8.7	7.3

Hotel

- The average selling price of hotels in the Northern New Jersey area is \$134,383 per unit for fourth quarter 2006, lower than the regional average but higher than the national average of \$110,713 per unit.
- The average capitalization rate for the Northern New Jersey hotel sector is 9.2 percent, higher than the regional average of 8.4 percent and the national average of 8.7 percent.

With a higher price per unit and capitalization rate than the national average, the Northern New Jersey hotel market may seem to be priced higher than one would expect. However, with the low unemployment rate and a slight growth in population over the next few years, this trend may lessen somewhat.

East Region Transaction Breakdown (Jan. 1, 2006 – Dec. 31, 2006)

	Office	Industrial	Retail	Apartment	Hotel	Total
Volume (in millions)						
<\$2 million	\$452	\$789	\$817	\$888	\$28	\$2,974
\$2-5 million	\$881	\$1,080	\$1,264	\$1,749	\$146	\$5,119
>\$5 million	\$62,999	\$8,110	\$12,157	\$30,547	\$8,698	\$122,511
All	\$64,287	\$9,914	\$14,178	\$33,144	\$8,861	\$130,384
Unit Price Averages						
<\$2 million	\$95	\$56	\$98	\$81,790	\$54,731	–
\$2-5 million	\$157	\$97	\$239	\$158,133	\$48,372	–
>\$5 million	\$258	\$127	\$338	\$174,721	\$182,367	–
All	\$200	\$84	\$199	\$128,020	\$147,952	–
Median of all	\$146	\$57	\$124	\$87,004	\$94,017	–
Capitalization Rates (All)						
Range	4.7 - 10	4.8 - 9.9	4.7 - 10.4	4.2 - 9	5.9 - 11.5	4.2 - 11.5
Average	7.1	7.3	6.9	6.1	8.4	7.2

Northern New Jersey Transaction Breakdown (Jan. 1, 2006 - Dec. 31, 2006)						
	Office	Industrial	Retail	Apartment	Hotel	Total
Volume						
<\$5 million	\$66	\$132	\$111	\$89	-	\$398
>\$5 million	\$3,304	\$1,110	\$663	\$1,129	\$362	\$6,568
All	\$3,370	\$1,242	\$774	\$1,218	\$363	\$6,967
Unit Price Averages						
<\$5 million	\$146	\$95	\$164	\$83,069	-	-
>\$5 million	\$168	\$94	\$260	\$142,510	\$140,523	-
All	\$163	\$95	\$192	\$107,787	\$134,383	-
Median of all	\$155	\$81	\$174	\$80,822	\$141,629	-
Capitalization rates (all)						
Range	5.2 - 8.6	5.3 - 8.9	5.1 - 8.5	4.4 - 7.4	6.9 - 11.5	4.4 - 11.5
Average	6.9	7.1	6.8	5.9	9.2	7.2

NCREIF Real Estate Index Returns - 4Q 2006					
	Office	Industrial	Retail	Apartment	Average
Total Returns:					
1-Year Rate	12.90%	13.30%	18.90%	9.70%	13.80%
3-Year Rate	14.40%	16.90%	20.00%	16.30%	16.40%
5-Year Rate	12.10%	13.60%	19.70%	13.10%	14.00%
10-Year Rate	13.70%	12.20%	13.60%	14.00%	13.50%
15-Year Rate	10.60%	9.10%	9.60%	-	10.10%
Income Return					
1-Year Rate	6.40%	6.70%	6.10%	5.40%	6.30%
3-Year Rate	7.20%	7.30%	6.60%	5.50%	6.80%
5-Year Rate	8.20%	7.60%	7.40%	6.00%	7.50%
10-Year Rate	8.30%	8.40%	7.70%	7.60%	8.00%
15-Year Rate	8.60%	8.50%	7.50%	-	8.10%
Allocation					
	Office	Industrial	Retail	Apartment	Other
1-Year Average	32%	24%	25%	17%	2%
3-Year Average	35%	21%	26%	16%	1%
5-Year Average	40%	22%	21%	16%	1%
10-Year Average	46%	19%	20%	14%	1%
15-Year Average	46%	18%	24%	10%	2%

Sources: RERC and National Council of Real Estate Investment Fiduciaries

Noteworthy Transactions

- One Newark Center, a 418,027-square-foot office building, sold for \$111 million, or around \$265 per square foot, which is much higher than the average sale price of \$168 per square foot for properties in the area selling for more than \$5 million.
- The 131,810-square-foot industrial property located at 1650 Tamarack Road was purchased for \$5 million, or \$38 per square foot, less than half the average sale price of properties in the area.
- A 56-unit apartment property located at 6 Pomona Ave. sold for \$3.7 million, or approximately \$66,070 per unit, well below the average price of \$83,069 per unit for apartment properties in the area selling for under \$5 million.
- The 269,500-square-foot office property located at 1 Washington Park sold for \$31.5 million, or \$117 per square foot, about one-third less than the average price of properties selling for more than \$5 million.
- The 70,000-square-foot industrial building located at 7000 Gateway Blvd. sold for \$15.5 million, or about \$220 per square foot, more than twice the average price of \$94 per square foot for properties selling for more than \$5 million.