

# LISA PRICE & ASSOCIATES

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Research and Strategy for the Real Estate Industry

## PREFACE

Ponds Edge is a 28 acre site that was formerly a driving range off of Delilah Road in Egg Harbor Township. Prior to the great recession, Ponds Edge was approved as a 208 unit stacked flat active adult lifestyle community. You have approached the town regarding the potential to build 208 market rate rental units configured in three stories with surface parking in a gated community. You are requesting an in depth analysis and opinion on the feasibility of the site and recommendations on the product offerings and amenities to provide the highest and best use for a rental community targeting the appropriate tenant profiles.

You are requesting an opinion of the depth of the market including drivers of demand to determine the optimal size of the community. You are concerned about key risks including vacancies within current communities and the potential for pipeline communities. Prospective target renter migration patterns and psychographics will be analyzed. You are requesting guidance and an opinion on the number of units, appropriate product types, rents, product sizes, configuration, mix, features, finishes and amenities to guide your planning process.

### Terms and Limiting Conditions:

This work has been conducted for use by Jack Hewes. While every effort was made to prepare a complete and thorough analysis of the marketplace, the conclusions reached in a market analysis are subjective and should not be relied on as a predictor of results. The above recommendations and conclusions expressed are as of the date of this report and an analysis conducted as of another date may determine different conclusions. The results achieved will depend on a variety of factors including: performance of management, changes in economic conditions and the competitive environment. This study may not be used for any purpose other than for which it was prepared. Written permission must be received prior to the release of any portion of this study by use through advertising, news media, or any other public dissemination. This report does not constitute an appraisal.

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**SECTION TWO**  
**EXECUTIVE SUMMARY**  
**CONCLUSIONS & RECOMMENDATIONS**

Our analysis reveals low vacancies and strong effective rents within the Atlantic County Market Area and Ocean County (to the north). Vacancies are low for established communities and initial lease-up activity for new rentals has been brisk. The pipeline reveals 735 potential rental units. The most significant project, Woods Edge by the Canuso's in Hamilton Township (475 units), has filed for a 10 year extension. The remaining 260 units are slated as a continuation of Hamilton Greene built in the late 80's.

The access to the area's transportation corridor, local employment, retail and services are the top pull factors for the subject property as a rental use. The void for a new quality rental community in Egg Harbor Township creates an excellent opportunity for the subject site.

Demand for new rental apartments is expected to continue due to the following drivers:

- The projected increase in private sector employment that will stimulate household formation during 2012. According to economists; employers in New Jersey are projected to add 57,000 jobs in 2012, expanding employment 1.4 percent, almost double the 31,000 jobs added in 2011.
- The proposed expansion of the FAA Tech Center that will add additional employment and the diverse economy, including health services and the casino industry.
- The drop in homeownership rate demonstrates increased demand for rentals.

- The household “de-bundling” effect, spurred by the prime renter age cohort of 20 to 34 who continue to capture new jobs. Economists predict the region’s population, ages 20 to 34 years, will increase substantially over the next three years providing increased demand for rental housing. Demand will increase for one bedroom units as the younger populations “de-bundles” from shared living including their parent’s homes in search of private living.
- Tighter lending criteria creating barriers to entry for would be buyers, many of whom are forced to rent including terminal renters who are plagued with bad credit issues.
- Economists at Marcus Millichap project vacancy rates in New Jersey will fall 50 basis points this year to 3.4 percent, the lowest level since 2008. The rate fell 80 basis points in 2011. The already tight conditions at the beginning of the year are projected to continue as the economic recovery intensifies. Vacancy within the competitive market area is currently averaging 5%. Rental communities to the north in Ocean County report full occupancy (0 vacancies) due to strong demand that was intensified after super storm Sandy.
- New Jersey is ranked 12th out of the top rental markets nationally with regards to low average vacancy rate, employment growth, construction, housing affordability and rents. Philadelphia is ranked 19<sup>th</sup> and New York is 3rd.
- Forecasts by economists at Marcus Millichap predict asking rents will rise 3.8% percent and effective rents will climb 4.2% during 2012 throughout New Jersey. This follows a 1.1% increase in asking rents and a 2.3% increase in effective rents last year.
- As incentives continue to wane due to increased demand for top tier rentals, effective rents will continue to rise.
- The increase in asking rents for Class A and Class B+ properties will stimulate profitability and stabilize the new rental stock.

Economists continue to predict shortages of multi-family product. As the job market continues to stabilize, the children of baby boomers (Generation Y or Echo Boomers) move away from home or shared apartments. This trend will lead to increased household formation and create a scenario where experts predict we will have fewer homes for renters and first time buyers than the market will demand creating shortages that may drive prices higher. Additional sources of renters include retiring baby boomers looking to reduce commitments. The state's growing immigrant population that veers toward urban markets and rentals are creating increased demand for apartments.

Rentals are already in high demand with area communities reporting low vacancies, increasing effective rents and diminishing incentives. Additionally, rentals are projected to be in high demand as the economy enters recovery. We believe the single family shadow inventory that may be converted to rentals will have a minimal impact on the traditional rental market. With regards to single family inventory; the general consensus among housing experts is it will be absorbed by the family market and those who would traditionally be purchasers that are unable to qualify for mortgages.

## **I. OVERVIEW OF RESIDENTIAL HOUSING MARKET**

From 1980 through the mid-2000's, Atlantic County saw a significant amount of residential/commercial growth due to the expansion of the casino industry, rising housing prices and depletion of land to the north, and the increase in activity in the second home market. The 2010 Census shows a nearly 22% increase in the population since 1990 and a nearly 36% increase since 1980. This growth helped to provide an increased tax base, better access to quality medical care and a greater variety of shopping and cultural opportunities. However, it has also brought increased traffic congestion, crowded schools and an increased strain on the local infrastructure.

Egg Harbor Township offers an established infrastructure and provides excellent access to local employment corridors. The low vacancy rate in existing rental communities and void for newly built rental communities creates an opportunity for a new class "A" rental community. The established Class A, B & C rental communities in the market area reveal low vacancies. New rental communities in initial lease-up to the north in Ocean County reveal strong activity. Demand has increased for one bedroom units and the market is short on supply.