NJBIZ

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NJ's real estate practice, demands on lawyers evolve with business

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As 2025 approaches, New Jersey's real estate market continues to adapt to evolving economic conditions, shifting tenant demands and technological advancements. Nationwide, the industry has faced numerous uncertainties in recent years primarily prompted by elevated interest rates and inflation, shifts in how and where tenants occupy commercial space, and the impacts of climate change on buildings. But experts believe the tide will turn over the next 12-to-18 months.

In a newly released report, PwC and the Urban Land Institute said they expect that lower interest rates will reduce borrowing costs, aid in price discovery and ultimately encourage an uptick in CRE transactions.

"Sentiment is improving, although largely still erring on the side of caution, but we're glad to see the early signs of capital markets poised for recovery, as firms look to longer-term strong fundamentals and adjust their strategy by market and property type," said ULI Global CEO Angela Cain. "In this respect, a number of alternative sub-sectors are increasingly of more interest, although the need for housing and logistics continue to make these core sectors attractive."

Andrew Alperstein, a partner with PwC's U.S. real estate practice, said, "While challenges persist across the real estate sector, there are signs of improvement after years of hardship."

"Industry optimism has grown in the last year, though there is an understanding that recovery will be gradual. Looking ahead to 2025, firms should focus on managing short-term risks and adjust their growth strategies to succeed in this reawakening," he said.

NJBIZ RECENTLY SPOKE WITH EXPERTS IN REAL ESTATE LAW ABOUT THEIR EXPECTATIONS FOR 2025.

"I see increasing economic activity and increasing transactions as we're coming out of COVID and coming out of what looked to be a potential recession, which, was managed pretty well by a combination of the feds and other elements," said Mark Levenson, chair of the real estate department and real estate transactions practice group at Sills Cummis & Gross.

"I'm optimistic that there is going to be more transactions and a better outlook. And I'm not expecting an explosion of activity, but I see a nice progression on the upward trend," he said. "I can't talk about what happens if world events interfere, but we've had a lot of shocks to the world's system over the last couple of years starting with COVID, and yet there still is economic activity."

Joshua Gorsky, a partner in the real estate, commercial lending and business law practice groups at Roseland-based Mandelbaum Barrett PC, said, "Objective criteria aside, commercial real estate professionals are very optimistic for 2025. It will be interesting to see if desire, optimism and a change in perspective can bring the industry back, irrespective of major changes to interest rates, underwriting and lender's appetite for risk."

IN-PERSON CLOSINGS

Before the pandemic, many banking and transactional clients insisted on in-person closings. But during COVID, that wasn't possible.


Mark Levenson

Levenson said, "At the beginning of '24, I would've said that in-person closings have almost disappeared … But remarkably over the last couple of months, we really had an uptick in clients that want to see the in-person closings.

"It also ties into how there is increasing pressure for people to come into the office. And I'm not just talking about law firms and mandatory days … a lot of professional firms across the platform – investment banks, accounting and other specialties – there is pressure to come back into the office," he said. "Which I think has legitimacy because there's a mentoring and collegiality that isn't there when you're doing things remotely. As that pressure increases … I think this notion and trend of in-person closings and meetings and collaborations, that's going to continue."

HYBRID WORK

Post-pandemic, the hybrid work model remains a fixture, and many companies are now seeking downsized, more flexible workspaces with modern amenities.

Industry experts believe the trend will continue to influence demand. Property owners who are left with underutilized space will have to consider whether to spend money to convert traditional offices into smaller or different uses, like industrial or residential.

Levenson noted that even before COVID the suburban office parks in New Jersey were seeing "an increasing glut" of space.

TECHNOLOGY

Within the industry, the use of technology has increased significantly, resulting in enhanced efficiency and work output.

Levenson said, "That also tremendously ratchets up the pressure and the time pressure to respond and turn around documents…People just assume and expect that there's going to be a faster turnaround because of the technology that everyone has.

"I just see that continuing more and more and more. I'm not going to predict trends like lawyers are going to resign because they don't want to do that type of work. I'm just saying that the technology and that pressure is going to increase. It's not going to go away," he said.

As for artificial intelligence, Levenson believes it'll be helpful in terms of document creation and other efficiencies, but that there's "a pressure that relates to that."

LEASING ACTIVITY

"We are seeing leasing activity come back … And I think that's going to continue as people are coming back more to the office and being pressured to come back more to the office," Levenson said.

"As long as there are companies and employees around, there is going to be a need for some sort of space," he added.

However, as businesses continue to figure out how they want to operate post-pandemic, Levenson said the dynamic is affecting the size of leasing deals in both office and retail.

"A law firm or accounting firm that may have needed 50,000 square feet 10, 15 or 20 years ago, now they're saying 'Do we really need 50,000 square feet? Not everyone is coming into the office. They're coming on certain days. So, we can share offices,'" he said. "Or if you're big enough enterprise, maybe your accounting firm and other back-office operations are done on a remote site that's a lot less expensive.

"And then, if there's less space and there's more capacity in the market, then there's pressure on the rental rate that could be obtained," he said.

Levenson went on to say, "I'm not saying there's an explosion of leasing deals. And I'm not predicting anything going back to what it was in the heyday in New York, especially 10, 15 years ago."

MIXED USE

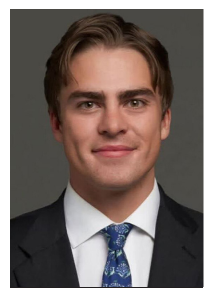
With many brick-and-mortar stores reducing their footprints, properties have had to adapt and "become more flexible" when it comes to filling their centers, Levenson said.

As a result, many retail properties have been repurposed into mixed-use developments combining entertainment, office and residential spaces. Or, they are filling their centers with non-traditional tenants, like medical facilities and fitness centers.

"In the olden times, you'd have a Macy's or these other companies that don't exist anymore chewing up half the space," he recalled.

"No one wants to walk around an empty shopping center … Owners have to adapt and landlords have to adapt. The types of things you're seeing in shopping centers, you would've never seen 20, 30 years ago," he said.

Owen Toland, a real estate salesperson with Serhant, agreed that the retail space in New Jersey is seeing a changing mix of tenants.


Owen Toland

"Food and beverage concepts, specialty fitness, and experiential retailers are capitalizing on the synergy provided by grocery-anchored centers. As vacancy rates decline across prime submarkets in New Jersey, landlords and tenants alike are capitalizing on the growing net operating income of these well-positioned centers. Looking ahead, we anticipate continued demand in this asset class, particularly as evolving consumer behaviors reinforce the role of convenience and experience in retail," he said.

Toland went on to say, "One trend is increasingly evident: centers anchored by strong grocery stores are outperforming their peers. These properties benefit from consistent foot traffic, positioning them as ideal locations for complementary retail tenants. The demand for space in grocery-anchored centers has driven vacancy rates lower and bolstered rent growth for neighboring tenants. National chains and local operators alike are eager to capture the customer base drawn by these high-frequency destinations."

"This dynamic was evident in my recent work at the Acme Shopping Center in Old Bridge, where the addition of ABC Indian Grill—a high-end Indian-American fusion restaurant—completed the center's lease-up. The presence of a grocery anchor contributed significantly to tenant interest and ensured sustained absorption rates," he said.

INCREASED LENDING

As interest rates fall, banks are expected to return to commercial real estate lending.

Gorsky recalled, "The banking failures of 2023 – Silicon Valley Bank, Signature Bank, First Republic Bank – and detrimental overconcentration of commercial real estate loans in many lenders – as evidenced by New York Community Bank in 2024 – led to a correction, or possible overcorrection, in the commercial real estate lending markets in 2024."

Josh Gorsky

"Together with the general reluctance of buyers and sellers to admit that interest rates were going to remain constant, deal flow was negatively impacted and growth slowed. Also worth mentioning, the lack of conventional financing led to an opportunity for non-conventional lenders – insurance companies, debt funds and other private lenders – to gain market share by simply being open for business," he said.

Levenson said, "If we'd spoken in the beginning of '24, it was a very dark period in terms of finance work. The lending markets had really ground almost to a halt. In my group, we found that we were now starting to represent private lenders.

"Private lenders do not have the capital strength and structure of banks, but they were able to step into a space that banks weren't lending because people still needed loans, wanted to develop properties and wanted to use other people's money," he said.

"Now, the banks on both the construction side and also the general lending banks are looking to do deals," he said.

IMPACT OF E-COMMERCE

With e-commerce growth showing no signs of slowing, demand for industrial properties – particularly those close to major transportation hubs – will continue. As companies prioritize faster delivery and inventory management, warehouses, distribution centers and cold storage facilities will remain a hot commodity. Data centers, call centers and server farms should also benefit, experts believe.

"What's interesting is New Jersey is a very desirable place for all sorts of enterprises to land," said Levenson, noting the state's education system, workforce and a less expensive cost of living compared to New York.

"We used to have industrial and warehouse space almost anywhere you wanted to go. Now, you have to move further out. And the demand for industrial and warehouse space has increased so much," he said.

"And with demand outpacing the supply, certainly prices rise and people have to move further from where they want to be. So, if you go to the more southern part of New Jersey, there are areas where it's easier to find space to build warehouses or data centers. It's more difficult in the northern half," he said. "Our clients do the best they can, but there's a lot of regulation, it's not cheap, they're not easy to find and that's going to continue."

ECO-FRIENDLY PROPERTIES

Though the commercial real estate market may be witnessing a push toward sustainable buildings with environmentally friendly practices, the cost to implement green technology can be significant, Levenson noted.

"There has to be an economic balance. If you're going to invest all sorts of money into renewable buildings, there's got to be a payback," he said.

"If you're going to be charging $10 more per square foot because you're putting in all this wonderful renewable energy and technology, well, you know what? Someone that's taken 50,000 square feet is going to say, 'Look, it's great. It's wonderful. I'm sure my employees will like it, but I don't want to pay $200,000 more a year in rent,'" he said.

"Yes, we need to be better. We need to be more friendly and positive to the environment and climate, but the amount of money that were projected to be spent on that – it's just not going to happen because there's not a payback. And unless the government wants to fund it all, there's not an economic equation that works for the private profit enterprise to incorporate all that's needed there," Levenson said.