Real Estate NJ's 2022 Market Forecast

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Editor's note: This is part of a special advertising section appearing in Real Estate NJ's January issue.

Every year has its ups and downs. Every market has highs and lows. Both were true when it came to New Jersey's commercial real estate sector in 2021, a year that marked ongoing dominance for some asset classes, as COVID-19 continued to loom over others.

Whether those trends endure in 2022 remains to be seen, but we've recruited some of the industry's most prominent developers, service providers and insiders to help set the stage. You can find their predictions, insights and more in our special 2022 Market Forecast.

Mark F. Beriault, Senior Executive Vice President, Chief Lending Officer

Across the state, commercial real estate is experiencing record expansion with a high demand for various commercial lending opportunities.

Manasquan Bank has also experienced unprecedented growth since shifting our strategic focus toward expanding our commercial lending operations. We turned to our talented team of commercial lenders as well as hiring new lenders who are established professionals within our market areas. While our focus is on Monmouth, Middlesex and Ocean counties, our growing team will foster business relationships from all over the state.

With commercial development on the rise, Manasquan Bank continues to capitalize on market demands by offering competitive lending solutions, paired with digital banking tools and personalized service. We have an exceptional team of commercial lenders who have a stellar reputation for contacting borrowers personally and making informed decisions in a timely manner.

As New Jersey's full-service community and commercial banking enterprise for nearly 150 years, we remain committed to help businesses thrive now and, in the years, to come.

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Robert Burney, Esq., Chair, Business and Financial Services Group

Among the many impacts of COVID-19 upon business practices is the difficulty of closing transactions efficiently. Quite simply, real estate transactions take longer to close and require greater effort than prior to the pandemic.

This is particularly true where financing is required. Many commercial lenders continue to operate at least partially remotely. Moreover, the time required to obtain third-party reports, including appraisals, title insurance commitments, surveys, zoning reports and environmental assessments, has increased.

Although some parties have resumed in-person closings, the vast majority of transactions close "through the mail." While this practice might appear to increase efficiency, often the opposite is true. The process of obtaining remote signatures on documents from parties in various locations is not as simple as it appears. Commercial courier services have become less dependable and deliveries frequently take longer than expected.

We are advising clients not to aggressively commit to "quick closings." Despite diligence and advance planning, it now takes longer — and requires greater effort.

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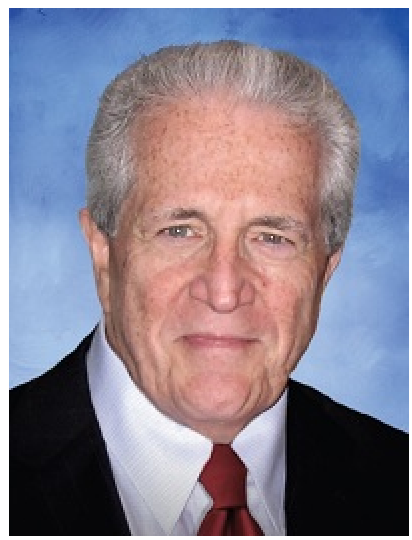

New Jersey’s urban centers and transit-served, walkable downtowns have attracted residents for decades, and even through the pandemic, the multifamily sector’s positive trajectory has continued. Tuned-in suburban municipalities are capitalizing on sustained demand for 24/7-style environments with housing options proximate to dining, retail, culture and commuting. They are working with developer partners to achieve this traditionally urban balance, encouraging a greater choice of housing options and both on-site and nearby amenities to make their downtowns attractive. In turn, a robust development pipeline is introducing a fresh generation of for-sale condominiums and rental apartments. These best-in-class, modern multifamily communities are not cookie-cutter developments; their designs respond to the nuances of each site, the preferences of potential renters and purchasers, and how the end product can best complement its surroundings and draw from regional demographics. This is the recipe for successfully uplifting neighborhoods and positioning entire communities for future growth and prosperity.

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Shane Connell, Executive Vice President

As we move into 2022, companies will continue to explore workplace solutions that help entice employees to return to the office. With employees across the state and nation now accustomed to working remotely, many are hesitant to return to traditional office settings. However, studies are showing that the remote workforce is longing for social interaction post-pandemic. As the office sector continues to be shaped by employees’ evolving preferences, workspaces should be designed to not only inspire the creation of great work, but also connection, creativity and energy. Properties that provide these opportunities for collaboration and social interaction beyond the office will be well positioned for success.

At The Park, we recently opened Round Table Studios, an elevated co-working space and social club that was fully leased within four months of opening. In 2022, expect to see more New Jersey commercial real estate owners add co-working uses and amenities to their buildings to help companies entice employees back into the office.

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Alessandro (Alex) Conte, CCIM, SIOR, Executive Vice President, Principal

The New Jersey industrial market will soon break the 1 billion total square foot mark. Vacancy rates have broken below 3 percent, with average lease rates nearing $11.00 per square foot NNN. Average cap rates will be under 5 percent and unemployment is below 7 percent. While in practice there can be figuratively no “negative vacancy,” we are experiencing just that. The market’s voracious appetite for space is outpacing existing and projected inventory. Consumer confidence is near all-time highs, making goods of any kind hard to come by. The overall forecast for the foreseeable future remains strong, with few indicators that a seismic change is coming anytime soon. The COVID-19 pandemic and variant interruptions have seemingly done little to negatively affect the market as of late, and the expectation is that future attempts to moderate inflation will be gradual.

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Gregory Dell’Aquila, CEO

New Jersey has a significant population density and an expansive network of hospitals and health care providers, yet it is underserved for Class A medical office accommodations. In 2022, developers will need to address that ongoing demand for state-of-the-art medical office space to meet the evolving needs of health care professionals and residents in both our urban and suburban communities. Proximity to end users is critical. For example, as doctors and medical groups relocate from hospital buildings in urban centers to be closer to patients who live in the suburbs, there is increased interest in mixed-use settings. Projects may involve retooling existing office space or ground-up construction of new facilities designed to attract either single or multiple health care users. Urban locations with proximity to existing health networks and communities with large concentrations of older adults will also continue to be highly desirable in 2022 and beyond.

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Gregory J. DeMarco, PE, President

It appears that the hybrid work environment, where employees split their work hours between office and home, is here to stay. Office work will not be eliminated entirely, as it is necessary for mentoring and instructing junior staff members, supporting collaboration and fortifying a team mentality that is so essential for the success of projects. In instances where health issues prevail, or where experienced employees work independently, routine work from home will be a continued option.

There has been growth in three notable sectors: health care, life sciences and industrial. We expect this growth will continue through 2022 at a slow and steady climb. The commercial market is showing signs of a rebound with clients now planning significant build-outs. Client feedback indicates that 2022 will be a year of growth.

The supply chain disruption has hampered most sectors of the economy, including construction and professional engineering services. Equipment and materials are stretched out six months and beyond, clearly delaying construction efforts and causing a negative trickle-down effect on engineering design services. We expect that the supply chain disruption will negatively affect construction and related design services throughout 2022.

The issue of a tight labor market will continue, unabated, in 2022.

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Alexander Erdos, Senior Vice President – Leasing & Marketing

A trend that will gain momentum in 2022 is the resurgence of suburban downtowns as headquarters locations for Fortune 500 companies. Corporations are finding that transit-oriented downtowns provide access to great talent; afford their workforces vibrant centers of retail, dining and nightlife; and are often easier to commute to than larger urban centers. In an environment where companies need to give their employees a compelling reason to come into the office, companies are seeking locations that provide people with direct access to services and amenities that create a better work-life experience. We're seeing this play out in places like Morristown, where local leadership has recognized that by welcoming new Class A office development into the downtown, they can attract employers that in turn help support the community by driving daytime foot traffic to local businesses. We expect to see continued demand for new, high-quality office development in downtowns as more companies reassess their workplace strategies.

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Jack Fersko, Partner and Chair, Real Estate Department

The industrial marketplace has seen unprecedented pricing on sales and rents, which in large measure is a direct byproduct of the pandemic. Having accelerated an already growing trend toward online buying, the pandemic further expanded that dynamic — from clothing to food and sundries. Due to this phenomenon, warehouse space has become an increasingly scarce commodity and pricing is accelerating on a monthly basis. Deals are being made at cap rates that barely exceed 3 percent and land in the Port area can go for almost (if not exceeding) $5 million per acre. Is it now time to take stock and reflect carefully back to 2008? Is that thought process more appropriately deferred to Q2 or Q3 of 2022? While we believe the market will continue to accelerate, we also firmly believe that one should not lose sight of real estate fundamentals! So, the bottom line is — go boldly forward, but with trepidation!

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Matthew K. Harding, CEO

Confidence among brick-and-mortar retail tenants drove strong leasing velocity through 2021 and shows no sign of abating in the new year. National brands and franchisees will continue to capitalize on opportunities to secure exceptionally good real estate at good pricing. Among independent retailers, new businesses will launch, expand operations or relocate to improve positioning by taking advantage of space availabilities that came online during the pandemic. Within this context, open-air shopping centers, especially those with grocery anchors, continue to perform particularly well. By nature, neighborhood, community and power centers provide a higher level of operational flexibility than other product types, accommodate tenants of all shapes and sizes and lend themselves to reconfiguration and repositioning. This agility is vital for a sector in continual transformation — as new retail concepts emerge while others reach their end — and ensures the sustained appeal of open-air product in 2022 and beyond.

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Robert Holland, President

Founded in 1906, Kislak is now in its second century of providing the highest-quality professional service in selling multifamily and other investment real estate and selling and leasing commercial real estate.

Despite the COVID-19 challenges of the last two years, we persevered, achieved record sales and are optimistic about 2022. We remain a relied-upon resource for clients and investors, and we are well-positioned to do what we do best — successfully close deals. Our optimism is based in the knowledge that multifamily real estate continues to be a highly desirable investment, and historically low interest rates are projected to stay relatively low at least through 2022, benefitting all types of sellers and buyers. We also continue to see an increase in suburban office leasing and sales as New York City-based businesses open satellite offices or relocate to less dense and often less costly suburban environments with signs of renewed interest in retail spaces and properties among users and investors both on Main Street and more heavily trafficked corridors, either for traditional uses or adaptive reuse.

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Eric Keller, PE, PP, LEED® AP, Vice President/Branch Manager

Bowman’s New Jersey operations see continued strength in the multifamily residential market, particularly for redevelopment areas and urban infill, but also in the suburban markets with strong demographics. Much of the residential development opportunities are driven by the continuing need to provide affordable housing for our residents. We also anticipate continued expansion and development in the industrial/warehouse sector as online retailing continues to grow exponentially. With the passage of the Infrastructure Investment and Jobs Act, we are also anticipating growth of municipal and county investments in roadways, water systems and sanitary sewer systems.

Bowman is well positioned to serve these market sectors with our multifaceted consulting services which we provide to homebuilders, developers, redevelopers and municipal and county governments. We offer a full range of surveying, site civil design, landscape architecture, traffic engineering, bridge design, MEP engineering and planning services.

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Greg Lalevee, IUOE Local 825 Business Manager, IUOE General Vice President

Even before President Biden signed the $1.2 trillion infrastructure bill into law in November, the market outlook for IUOE Local 825 operating engineers in New Jersey and our five counties of New York State was already positive.

Under the federal package, New Jersey will receive an estimated $12.3 billion, including $30 billion for Amtrak improvements and $11 billion in grants to repair roads and bridges, replace hazardous lead drinking water pipes, clean superfund sites, advance the Gateway Project and expand access to broadband internet.

This is in addition to the offshore wind work that’s funded separately by New Jersey.

It will not only benefit operating engineers but also dealers selling equipment, mechanics who provide service, surveyors, members who work in rock quarries, concrete and asphalt plants.

We’re going to help usher thousands more people into the middle class. The cumulative effect will be like nothing we’ve ever seen.

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W. Nevins McCann, Co-chair, Real Estate and Land Use Group

Due to the pandemic, the logistics, warehousing and manufacturing sectors are hotter than ever and show no signs of cooling. On the flip side, the pandemic took its toll on residential landlords, and bricks-and-mortar retail. Despite setbacks, multifamily seems to have weathered the storm, as leasing is picking back up, more approvals are being obtained and buildings are being built. The New Jersey real estate industry as a whole has remained remarkably resilient and is now moving full steam ahead. There has been a push across many municipalities to pass inclusionary affordable housing, so it is yet to be seen if that will have any impact on development. The infrastructure bill will jump-start some long-stalled projects, including the Gateway Tunnel, while also investing in desperately needed improvements across the state. I wouldn’t say we have smooth sailing ahead, but it is shaping up to be an exciting adventure.

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Bryan Murray, Director of Business Development

We are winding down from a solid year in 2021 which saw commercial real estate rebound in every segment. We are also preparing for 2022, where I expect growth will continue. The industrial and multifamily markets take the lead in construction activity in 2022. These areas continue to have high demand — supply is absorbed quickly. There is an ever-increasing need to deliver consumer goods as fast as possible. Retail, although unsteady, may grow over time. The current commercial office market is evolving to fit new workplace environments. We should see a lot of office repurposing during this shift. Multistory industrial has been thriving in the five boroughs of New York City. Because of this surge, it is now spilling over into urban New Jersey markets. On the whole, I suspect 2022's CRE performance will be comparable to 2021 or better.

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Randy Salvatore, CEO and President

RMS Companies has just completed its first New Jersey development, constructing the project through the depths of the pandemic. We expect the supply chain issues, material escalations and labor shortages to continue to be significant issues in the near term, so advanced planning and attention to detail in the execution of developments will continue to be critical. Even as New York City home sales surpass pre-pandemic highs, we believe the suburbs will continue to grow due to both their historic value proposition as well as companies committing to the hybrid work model and "hub and spoke" office format. To cater to these changes, unique, thoughtfully designed and usable work-play amenities will be important in a competitive multifamily market. New Jersey's favorable redevelopment laws, deep labor pool and large physical market area are some of the factors in our decision to actively grow our pipeline within the state.

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Michael Schnurr, Managing Partner

As we enter 2022, the U.S. faces a markedly different real estate investment landscape than it did just six months ago. After navigating a stormy 2020 and 2021, we believe that clearer skies are on the horizon.

Multifamily: As the pandemic unfolded, we witnessed a noticeable shift in renter behavior as people migrated from highly populated urban centers to the suburbs in search of larger units and less densely populated multifamily communities. However, as Q3 2021 came around there was a huge uptick in rental demand in multifamily housing. We see demand continuing well into 2022 as there is nowhere near enough houses to fill the demand.

Industrial: The continued demand for industrial space of all types has been substantially driven by the increase in e-commerce sales. Asking rents are expected to continue to increase year over year and to see strong net operating income (NOI) growth in 2022. The industrial sector will need to meet the growing demand by finding land in strategic locations to accommodate these large footprints.

As we enter 2022, we at Amalfi will continue to be razor-focused on our core markets — multifamily, industrial and self-storage — as we believe post-COVID they will continue to see investment returns well above average.

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David A. Simon, SIOR, Chief Operating Officer

The New Jersey industrial market continues to be one of the most desired locations in the country for tenants and investors, with demand consistently eclipsing supply, and 2022 looks to be another solid year for this sector. We will see many industrial tenants exercising lease renewal options early, due to the lack of inventory.

Occupiers of office space are still determining the best approach for balancing their desire to bring employees together in a consistent, collaborative and safe way, while providing more flexibility for certain functions that can be accomplished remotely and productively. As a result, we anticipate seeing the continuance of shorter and more flexible office lease terms with tenants reducing their physical space needs. The increasing supply of sublease space will provide viable alternatives and create some downward pressure on direct office asking prices.

Customer preferences and expectations have completely shifted in the retail sector because of the pandemic. Consumers want convenience and comfort and online shopping will continue to expand. Retail stores will need to be designed and reconfigured accordingly to accommodate more curbside pickup options and temporary outside dining areas for restaurants will become permanent.

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Ken Uranowitz, President

For multifamily, 2021 will be a year that will live in infamy and 2022 is expected to bring much of the same. Continued deal flow and capital velocity are feeding record demand, especially among private and institutional investors, funds and lenders. In terms of rents, inflation-driven gains are pushing asset valuations upward for core and value-add product — both of which are at the top of the investor food chain. Adding to this unquenchable appetite is a sustained shortage of available for-sale product in New Jersey’s high concentration of train-line municipalities that have always been an investment magnet. Cap rate compression levels also will continue into 2022, notwithstanding an expected rise in interest rates in the coming months. Single-family homeownership remains elusive to many and as borrowing costs become more expensive, renters will stay in place to solidify occupancy levels — resulting in the continued upward trajectory of multifamily performance in the foreseeable future.

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John White, Jr., Regional Chief Operating Officer

Office construction remains unpredictable, although we are seeing projects related to reconfiguring footprints to adjust for new staff counts. Our pipeline is filling with projects in the industrial, life sciences, data center and health care sectors, where communication, distribution, research and care are critical. Heading into 2022, the supply chain continues to be fragile, with any disruption having an out-proportioned ripple effect on the system, both in terms of logistics and costs. Technology will help us better track that and improve the construction process overall. Our industry is using more cloud-based tools than ever to share progress on-site with virtual partners. These tools have helped us mitigate risk and manage our projects more efficiently and safely, and we will continue piloting new tools throughout 2022. We also expect diversity and inclusion to become even more prevalent throughout the supply chain as more owners require a diverse group of suppliers, vendors and project partners.

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Wesley Wilcox, Vice President / Bridget Wilcox, Vice President

In 2021 the U.S. economy bounced back as more people returned to the office, attended conferences, dined out and traveled. Lenders across the board remained aggressive on industrial and multifamily financings, while slightly more selective on office and retail. We anticipate these trends to persist into 2022 as the return to normalcy continues. This past year experienced exceptional industrial rent growth and cap rate compression which we expect to continue into 2022. Regarding office, it will be interesting to see how the pandemic continues to shape this sector as many larger firms continue to downsize their footprint and move to a hotel desk model or have their employees coming in on a rotational basis. While the U.S. economy has recovered substantially since the pandemic, it still faces some headwinds, namely inflation, supply chain issues and a hiring shortage.

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Ralph Zucker, President

The new year will usher in a full-fledged return to the office, as workers look to return to an environment that inspires — a place to do more than work but to ideate, collaborate and innovate. I predict businesses and their employees will continue to seek out a workspace environment with real benefits and the in-person connectivity and fulfillment that cannot be replicated while working from a kitchen table or spare bedroom. Whether it’s a hub-and-spoke satellite location, office headquarters or co-working space — a well-executed and truly vibrant suburban office will continue to attract in 2022. Aside from intelligent design, flexibly termed leases will also remain crucial to businesses assessing return-to-office plans and seeking the right environment for employees to return to in-person collaboration.

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