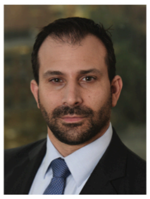
REALESTATENJ
The Voice of New Jersey Commercial Real Estate

2025 MARKET FORECAST

Commercial real estate leaders have entered 2025 with varying levels of optimism. That's evident from this year's Real Estate NJ Market Forecast, where you'll find everything from caution to confidence about how the sector will perform as it balances strong fundamentals in several key asset classes with new regulatory headwinds, nagging inflation and what seems to be a lingering lack of clarity over when lower interest rates will truly impact the industry.

You can read all about it in our 2025 Market Forecast, which features predictions and insights from some of the state's leading voices in commercial real estate.

REALESTATENJ MARKET FORECAST



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ROCKEFELLER GROUP

After a transitional 2024, Rockefeller Group expects transaction volume across the industrial sector to improve in 2025. As a result of further market stabilization and the potential for lower interest rates, occupiers are likely to execute on their leasing strategies. With longer lease-up periods, there will be greater concessions and rents will remain flat. Demand for goods delivered in a faster timeline will continue to evolve, which will help foster increased investments in technology and material handling equipment. Vacancy rates should decrease as product is absorbed along with minimal construction starts. In addition, investors will deploy more capital providing further liquidity within the market. Functionality, design, location and a flight to quality will continue to be important to occupiers and institutional investors. Real estate fundamentals will prevail regardless of asset class.

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2024 was a transition year for the commercial real estate industry. There was an uptick in leases, transaction volume and cuts in interest rates. 2025 is primed to be an active year — the demand for industrial space and housing is really strong. New construction starts slowed the past few years, exponentially charging the demand. It is going to be really interesting to see the pace of absorption. It is still unclear what will happen to cap rates, but I think as core buyers enter the market again and create a competitive landscape, they should experience some compression. New Jersey remains one of the most active markets in the country and it's exciting to be additive to it.

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2024 was a year of uncertainty — both economic and political — at the local, regional, national and international levels. On the plus side, U.S. economic indicators show strength, stock market gains continue and interest rates are on a downward path. Still, the wait and see approach continues to hang on — albeit with a more optimistic and hopeful view for 2025. As the new administration in Washington, D.C., takes shape and flexes its muscles, and the New Jersey gubernatorial primaries establish finalists for the Statehouse, 2025 will come into focus. Owners will continue to face the challenge of refinancing otherwise healthy assets coming out of sub-4 percent loans into a still unfriendly rate environment. Lenders will have choices to make on two fronts: addressing those maturing loans and their commitment to making new loans. The glass remains half-full as there is no shortage of equity for the 'right deal' on both a one-off and programmatic basis. The CSG Law real estate group continues to add talent to deepen one of the strongest real estate benches in the region and is strategizing with clients in preparation for the volume of deals and projects to come in 2025.

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The commercial real estate community enters 2025 with significant uncertainty. The increase in mortgage demand prompted by the Fed's rate cuts in autumn 2024 has not dramatically affected the supply of credit as lenders continue to closely scrutinize borrowers' economic prospects for 2025 and beyond. The inability to refinance mortgage balloon maturities at par poses risk to developers.

The short-term impact of the election remains unclear. Republicans' expressed intent to make certain temporary provisions of the 2017 Trump tax cuts permanent should encourage real estate investment. Conversely, the imposition of significant tariffs could influence the Fed's monetary policy and dampen the likelihood of further rate cuts. Also unclear is whether the new administration can tame the troublesome inflation of the past few years. Continued political uncertainty in Europe may continue to negatively affect the investment in and leasing of logistical space.

Hopefully, this uncertainty will be clarified by mid-2025.

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REALESTATENJ MARKET FORECAST

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As 2025 ushers in a new president and party, the markets have responded positively. Our predictions for robust growth in 2024 held true in the pharmaceutical, health care and data center sectors. As we move ahead into next year, we predict growth in these same three sectors with a twist on data centers. We have been approached by many investors and developers seeking advice and guidance on large-scale, high-powered data centers with a focus on AI (artificial intelligence). This will be a major push in 2025 and one with long-term potential.

Many Fortune 100 and 500 firms continue to develop their national footprint as we've already started to engage in forthcoming expansion projects. If inflation can be controlled with a slow decrease in interest rates coupled with a taming of Middle East tensions, we should see more cash being spent on this type of growth. Mergers and acquisitions will also continue as staffing remains a challenge, especially in the science and technology sectors. Commercial workplace (as a sector) remains weak but moving, mainly because of expiring leases as well as the continuing downsizing trend.

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Available open-air retail space is at an all-time low, and 2025 will continue to see more brands chasing fewer opportunities. Well-capitalized landlords and their service providers are taking advantage of the industry's momentum and stepped-up anchor leasing to redevelop legacy properties into next-generation spaces. That strategy is working, as evidenced by sustained leasing activity with best-in-class, expanding retailers. The most successful repositionings are emphasizing carefully curated tenant mixes that meet community needs by blending big names and independent players across diverse categories with day-to-day service providers. Space users are drawn to locations that check all the same boxes for variety while offering great demographics, easy access and high visibility. On both sides, we are seeing increased use of new technologies, including AI, in tandem with traditional tools and talent to inform the decision-making process. Retail real estate is gearing up for another strong year for property transformations — and great outcomes.

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Since 1906

We have been through many market cycles and the economic changes that began in 2022 lessened in 2024 as interest rates began to fall and inflation decreased. The past year has been one of recovery as the market improved and our sales are up nearly 100 percent from 2023. Despite the cyclical fluctuations in the market and broader economy, we continue to do business as we have since 1906. We are knocking on doors, building relationships and providing our clients with market information, guidance and service when they need it.

The investment real estate market is resilient, and investors continue to seek the safe and reliable refuge of investment real estate. The multifamily market continues to be the strongest commercial real estate market, and the multifamily rental market remains very strong given the ever-increasing demand for housing. Other types of investment and commercial properties in desirable locations also remain in demand.

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GREG LALEVEE
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International Union of Operating Engineers — Organized Dec. 7, 1896 — 825 — Labor Omnia Vincit

The International Union of Operating Engineers Local 825 closed out 2024 on a high note with full employment for its nearly 8,000 members. Looking ahead, it seems continued demand for its operators and ongoing graduate successes at our training centers.

Local 825's heavy equipment operators are building, repairing and maintaining roads, rails, bridges and our beaches while continuing to work on water mains, cleaning brownfields and preparing for future energy projects.

Recent project updates as they will run into 2025 include:

The Tonnelle Avenue Bridge and Utility Relocation Project is more than 50 percent complete, according to the Gateway Development Commission. It is expected to be completed in the new year!

The $107 billion New Jersey Turnpike expansion plan replaces the existing Newark Bay Extension Bridge with two spans, one for eastbound traffic and the other for westbound vehicles. This construction would be a major step forward for improving traffic flow throughout the region and is vital for commercial and residential developers as well as commuters. Leading to the Holland Tunnel is on the drawing boards.

The Gateway Tunnel Project — the first of three massive arched spans was floated on a barge down the Hackensack River and set into place on the new Portal North Bridge. The spans are approximately 400 feet long, 85 feet tall and about 55 feet wide. Two additional 2,500-ton spans are also scheduled to be floated down the Hackensack River on barges in the coming weeks to support the new bridge, a critical segment of the Gateway Tunnel Project designed to upgrade train service along the Northeast Corridor.

Our highly trained and experienced workers are ready to start 'day one.'

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REALESTATENJ MARKET FORECAST

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In 2025, we expect the continuation of the adjustment of the commercial real estate sector due to lingering high interest rates enacted to curtail the inflationary environment, and the effects of that inflation on the bottom lines of all businesses. While the market showed hints of life over the second half of 2024, especially when rates ticked down, we expect the market to remain mixed overall unless inflation fully subsides, allowing rates to be decreased. There will also continue to be a dichotomy in the market depending on the property's use. For example, we are seeing inflationary pressure on restaurants, which are a substantial user of commercial retail space, driving once successful restaurants of all sizes out of business. On the other hand, demand for smaller warehouses is likely to remain strong, and the hot market for multifamily residential projects will continue as the state continues to require more housing units.

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2024 was a challenging year as many tenants took the 'wait and see' approach in reference to their expansion plans. In speaking with large corporations, retailers and third-party logistics providers, the message was consistent — the uncertainty of the economic environment early in the year, compounded by the presidential election, had many companies put their plans on hold. Now that these factors are behind us, there seems to be a sigh of relief across the market. We have seen an increase in leasing activity for small space midway through the year, and as we close out 2024, an increase in larger users. This trend will likely continue on a positive trajectory in 2025. We believe the market will remain healthy as the supply of new projects will be limited, but the demand for space will be consistently strong. While the shortage of developable land and regulatory constraints will challenge many developers, at Bridge Industrial, we are excited about the opportunities that will present themselves for infill development on impacted sites. The markets will remain in balance allowing well-positioned developers to create value for investors.

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The multifamily sector holds excellent growth potential, particularly over the next few years, as the current wave of affordable housing development comes online. This growth is mainly fueled by more people moving to cities and smaller urban or suburban areas.

Contrary to popular belief, people are not fleeing the core parts of metro areas for the suburbs. In fact, housing demand remains strong in the heart of cities, demonstrating that a future increase in migration to suburban areas isn't guaranteed.

The multifamily housing market is adjusting its prices to create more balance, especially in areas that might have too many units available. This should happen smoothly, without causing major problems for the overall economy.

The retail sector seems ready for a comeback, with people returning to the classic 'Main Street' shopping experience, driven by a sense of nostalgia. Recently, retail sales have picked up a healthy year-over-year increase of 6 percent, though some locales are enjoying much better numbers than that (Florida and Texas).

At the most recent ICSC New York show, there was a lot of interest and activity around leasing. Restaurants and entertainment venues offering in-person experiences are the main reasons shoppers are returning to traditional shopping centers. Because of these experiences, specific retail sectors — pure plays like Ulta Beauty or Lululemon, for example — are performing well.

Data centers and related industries are expected to grow. Our cloud computing and cyber solution clients are creating a huge demand in this already complex field. Cloud clients, like financial firms, are looking for customized solutions to meet the infrastructure needs of their technology.

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The prognostication of the real estate market can be left up to the brokers and owners in our wonderful New Jersey real estate market. Instead, here is an update on the accounting firm landscape. The customer demand related to our services has significantly changed. As accountants, we're at the center of everything a customer does, and we credit our success to them. With that said, Wiss has poured back capital to invest and expand our service mix. Clients are demanding services such as data analytics, financial consulting, family office services (including wealth management and insurance), advisory, recruiting, IT implementation, automation services, trusts and estate, outsourcing and a deep tax experience in the real estate industry. The goal for firms is to become a one-stop shop for all our customers' needs. If you are not hearing these things from your firm, you should be asking why.

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REALESTATENJ MARKET FORECAST

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Overall, 2025 looks like a good year for the New Jersey real estate market. We should see a revival in activity across several sectors. Pent-up demand combined with improved market conditions, falling interest rates and an influx of foreign investors looking to take advantage of a closer alignment in U.S. real estate valuation will encourage lenders to turn on the faucet on construction financing, providing developers the funding they need to clear a pipeline of approved projects that remained stalled throughout 2024. A further catalyst to growth can be anticipated in the newly released 'Fourth Round' affordable housing requirements. We should see greater cooperation between developers and local governments as municipalities look for ways to satisfy the present need for 60,000 to 80,000 affordable housing units and developers with an eye toward 2026 and beyond look for new opportunities.

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Commercial real estate is no longer simply office buildings and strip malls — if it ever was. Today, the fourth dimension of commercial real estate includes the integration of data, technology and access to the fundamental need — power. Today's commercial real estate includes leases on the ocean floor; conversions to high-end, high-tech, high-energy-use facilities; and the development of data centers, artificial intelligence server farms and 3D manufacturing locations where once the highest and best use was refrigerated warehouse or distribution facilities. Today, the watchwords for a successful real estate development are no longer simply 'location, location, location' — they are instead 'power, water and fiber,' the sooner, closer and more robust, the better.

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In 2025, commercial real estate developers, while weighing the risks associated with uncertain future interest rates, will nevertheless be pushed to act in reaction to changing statutes and regulations.

The New Jersey Department of Environmental Protection's pending Resilient Environments and Landscapes (REAL) regulations likely will be adopted in mid-2025, further ushering in tightening environmental restrictions from New Jersey's Protecting Against Climate Threats or NJPACT program. Ready or not, developers in coastal areas, particularly those wishing to build multifamily housing, must consider submitting applications this year.

The same is true for developers holding liquor licenses for future deals. The state's 2024 liquor licensing reform legislation will push them to put pocket licenses in service before those licenses expire — and the associated investments evaporate.

Multifamily housing is in demand, but faces complications. Our clients are pursuing approvals to have shovel-ready projects when lending loosens. However, municipalities and developers are weathering the uncertainty of how — or if — the 2024 affordable housing legislation will be implemented statewide in 2025.

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