NJ Commercial Real Estate Law

By Nicholas Racioppi, Jr. and Joshua Greenfield, Riker Danzig, LLP

New Jersey commercial real estate: A year in review and a look ahead

New Jersey commercial real estate in 2012 can best be described as a tale of two submarkets: one for core assets and one for non-core assets.

Nicholas Racioppi, Jr.

Joshua Greenfield

While there continues to be a large amount of capital sitting on the sidelines, core assets, i.e., multi-family, top quality retail and office, industrial in primary areas (e.g., the Meadowlands, certain areas off the New Jersey Turnpike, various ports, Newark, etc.) are active and have attracted the most attention. The result of the concentration on core assets has been the all too common situation of many investors/operators chasing a relatively small number of properties. This has led to an increase in demand, lower cap rates, and even some bidding wars for core assets, particularly in multi-family due to strong demand, low cap rates and a historic opposition to development of multi-family properties.

On the other hand, the market for non-core assets, i.e., suburban office, industrial in remote locations, etc., continues to be slow. The suburban office market in particular has suffered, as the high unemployment rate has had a negative effect on office demand, and any demand that does exist has gravitated toward the core-office market. Many major investors and operators have shied away from pursuing this class of assets, which has left some value opportunities for smaller players and private equity.

Many of the transactions that have occurred in 2012 were due to institutional lenders being more willing to sell distressed assets and maturities of existing loans. From 2009 through 2011, it was not uncommon to see a lender refusing to sell distressed assets as they were unwilling or unable to take the balance sheet hit and instead decided to "delay and pray" or "extend and pretend." By 2012, lenders had marked down assets on their books and thus were more willing to sell distressed assets at substantial discounts to par, thus facilitating some short-sale and deed in lieu transactions.

Additionally, 2012 brought a marked increase in "traditional" deals, i.e., those that do not involve distressed properties. Though the majority of lending work was refinancing of maturing loans, there was a pickup in acquisition financing. Unlike in the period leading up to the great recession, however, lenders have been demanding lower loan to value ratios, full or at least partial guaranties (as opposed to only carve-out guaranties) and that the loans are at least partially amortizing.

As the dollar amount of commercial real estate mortgages coming due in 2013 will be significantly higher than 2012, owners will be forced to either refinance their debt, if possible, or seek alternative arrangements with their lenders. Much of the debt coming due, legacy debt made prior to the 2008 downturn, was made with a high loan to value ratio, no guarantee, and interest only payments for the life of the loan. Therefore, deals centered on distressed debt should continue to be a major piece of the market.

We expect that the New Jersey commercial real estate market in 2013 will continue to be a tale of two sub-markets, core and non-core. As a limited number of core assets continue to attract the larger owners and operators, it would not be surprising to see investors begin to explore opportunities in non-core assets. Investors may also focus on more suburban and rural markets for multi-family, as the factors listed above make it difficult to crack the prime areas.

Nicholas Racioppi, Jr., Esq. is the head of Riker Danzig's Real Estate Group, and Joshua Greenfield, Esq., is an associate in Riker Danzig's Real Estate Group. ■

The main advantage to our New Jersey real estate law practice? New Jersey.

Our comprehensive understanding of commercial real estate law and the governmental landscape in New Jersey comes from practicing in New Jersey for over 125 years. Our real estate attorneys work together with our corporate, environmental, lending and litigation practice groups to provide for all of our clients' needs.

To find out how we can help your business in New Jersey's complicated real estate environment, contact Nick Racioppi at 973.451.8492 or nracioppi@riker.com.

- Negotiating contracts of sale and options on behalf of sellers and purchasers of improved and unimproved real property
- Representing commercial. industrial and retail developers, landlords and tenants
- All aspects of major redevelopment projects
- Sale-leaseback transactions
- Obtaining zoning, planning and other developmental approvals and permits
- 1031 tax-free exchanges
- Representing borrowers and lenders with loans secured by real property
- Brownfields
- Real estate litigation and arbitration matters
- Condemnation proceedings

ATTORNEYS AT LAW

MORRISTOWN, NJ 973.538.0800 | TRENTON, NJ 609.396.2121 | NEW YORK 212.302.6574 | LONDON AFFILIATE +44 (0) 20 7877 3270 | WWW.RIKER.COM