

Industry Partners Discuss “The Current Trends for Developers in New Jersey for the Logistics Marketplace”

On February 15, 2022, Becker LLC Real Estate and Logistics Practice Leader Anthony J. Vizzoni interviewed Zachary Csik of Rockefeller Group to discuss the Current Trends for New Jersey Developers in the Logistics Marketplace.

Vizzoni: From our Firm’s perspective, the warehouse and logistics market in New Jersey continues to remain very hot. As far as new real estate matters that our Firm’s commercial real estate practice group attends to, we would say over 80% currently relate to warehousing and logistics. From your perspective what you are seeing on the acquisition and development front, in particular, what does the inventory of available land look like for purchase to be developed into warehouse and logistics sites?

Csik: The warehouse and logistics market in New Jersey is unprecedentedly hot. Lease up timeframes for new Class A product is virtually zero and rental rate records are breaking every month in all regions of the state. Naturally, this has led to a feverish demand for land, which has led to land prices rising to historical levels. Because of the competition for land, developers are being forced to take on shorter due diligence timeframes, provide less entitlement contingencies, ensure more non-refundable money before closing or “as-is” non-contingent closings in some instances.

We are also looking at sites that require substantial environmental cleanup and controls. While each developer may have a slightly different outlook on acquiring land, generally we agree on what constitutes a great site. At this point, these sites are very limited, and there may be 20 or more developers vying for them. There are a few infill redevelopment sites out there and raw land available as you travel south, but infrastructure and anti-warehousing sentiment has put an enormous strain on supply, which is currently outpaced by demand by almost 3:1 in New Jersey.

Vizzoni: In which parts of New Jersey do you foresee the greatest demand for this space?

Csik: The New Jersey Turnpike is the spine of industrial development from the Delaware Memorial Bridge to the ports of Elizabeth and Newark. Between 2009 and 2014, the state invested almost \$3 billion to expand the Turnpike from 6 lanes to 12 lanes from Exit 6-9. Economic expansion to Burlington, Camden, Gloucester and other counties in the southern portion of the state have been catapulted by this access. The industrial boom timing certainly accelerated that expansion, but smart planning and investment by the Turnpike Authority assisted that growth in a huge way. Burlington County is no longer a pioneering market, and the same writing is on the walls for Camden, Gloucester and others.

As you move to the northern portion of the state, there are redevelopment infill opportunities that some developers have already capitalized on. That trend will continue and will even grow as the industrial land

prices surpass the existing assets value. Suburban office space, corporate campuses, old pharma space and other underutilized assets with local highway access have repositioning potential for industrial. For the most part, you won't see the big bombers or large industrial parks that you see at Exit 8A and south, but rather smaller buildings between 100,000 and 300,000 SF or so. These buildings will attract local and niche tenants and will demand some of the highest rents in the country.

Vizzoni: *Can you describe the types of users on Rockefeller Group properties? For example, are there specific market segments that Rockefeller has a high concentration of tenants, such as fulfillment centers? Do you see strong activity with companies, both domestic and international companies, coming into New Jersey?*

Csik: Our tenant mix has been very diverse over the last five years. We've had requirements for fulfillment centers, e-commerce, small-scale manufacturing, assembly, and data centers. We've also signed leases with multiple 3PL's with e-commerce or fulfillment clients.

Most of our tenants break out their building space into multiple uses. Warehousing, fulfillment, e-commerce, office, training space, small retail space and customer pick up areas may fall under one roof. Traditional retailers are also showing huge increases in e-commerce sales, which is largely due to COVID but expectations are that the same consumers buying online now will continue to do so. These companies may start operations in a building with 80% fulfillment and 20% e-commerce, but there is always flexibility to ramp up the e-commerce component quickly. From our standpoint, this means providing maximum flexibility upstream with parking, utilities, circulation, ingress and egress, and interior design.

As far as international users, we've signed leases with Japanese, European and multiple American-based companies that do business internationally. It's hard to find a Fortune 100 company that doesn't have a presence in the northeast region. Those regional searches may include New Jersey, Pennsylvania, Delaware, New York, Maryland and other eastern seaboard states but generally New Jersey is at the top of the list from a location, labor and accessibility standpoint. On the sale side of our industrial assets, there is an extremely diverse buyer pool. Lately we've seen aggressive bidding from American, European, Japanese, Canadian and South Korean capital.

Vizzoni: *What are you seeing in terms of pricing for raw land and end product leasing? What are you seeing as being the biggest challenge for developers in New Jersey looking to develop warehouse and logistics centers?*

Csik: The simple math is that higher rents and compressed cap rates equal higher land costs. Land isn't the input in the equation, it's the output. It's just about how hard you want to push your other assumptions for a piece of property. With rent inflation in the double digits for 5 years running and cap rates nearing 3% with A-credit tenants, raw land has more than quadrupled in many parts of New Jersey since 2016. Anyone who was "over aggressive" with their assumptions and therefore "overpaid" for the land since 2016 made the right call (most likely).

I believe there is still a lot of runway left. That premise on the capital markets side is baked into the uber low 3% cap rates stated above – they're not assuming low returns in perpetuity, they're assuming rents will

continue to inflate and returns will grow. On the tenant side, they're agreeing to larger than ever annual rent increases because they believe rent inflation will exceed the 3%-5% bumps in the lease.

While the demand is there, there are some big headwinds that developers are facing in New Jersey. In the southern portion of the state, one major issue I see is expanding public water and sewer. The local utility companies, municipalities, developers and the NJDEP must work together to improve utility infrastructure with smart planning to ensure proper development.

In the northern portion of the state the major issue is taxes. Tax uncertainty and some of the highest property taxes in the country are beginning to interrupt deals. Fortune 500 companies are putting taxes higher on their checklist, and New Jersey may start to lose these users to surrounding states.

Vizzoni: It seems to be a very competitive market, I refer to the old expression: "If there's one thing that God doesn't make more of, its land". How does Rockefeller compete in acquiring product that makes economic sense, especially in light of all the uncertainties facing developers in such a high risk State as New Jersey?

Csik: Rockefeller Group is one of the most trusted brand names in real estate and for good reason. I work with some of the brightest and hardest working people in the industry, and we have a proven track record of following through on acquisitions with sellers, promises made to townships, and we continually churn out some of the best product in the region. A referral still goes a long way and on the acquisition front, if we're anywhere near the top with price, we generally have a good shot at securing the deal. Sellers know that it requires a partnership with the purchaser to get to a closing. The end goal is to move the project along and as an active national developer for 90 years and developing within New Jersey for 40 years, we know how to do that.

Vizzoni: COVID has had a huge impact on your industry. Can you give us some insight as to how Rockefeller Group has maneuvered over the last year to minimize the impacts of COVID, and has COVID led to any opportunities for Rockefeller, such as purchasing product from other developers that decided to change direction on their planned projects?

Csik: COVID put a pause on construction, influenced the capital markets, put some fear into developers and users, and essentially shut down governmental approvals. On the construction front, we stayed in touch with each respective municipality, followed CDC and state guidelines and put in additional efforts with our contractors to minimize the chances for infections on site. We took a concerted effort to continue construction with safety taking precedent over the reboot of projects nationwide. In our region, we were able to start our projects back up within 45 days of the March 19, 2020 shutdown in New Jersey. Our GC's did an incredible job through the worst of it to keep workers safe with additional testing, reporting, communication and disinfection efforts. The capital markets took a brief hiatus from new investments but that only lasted a couple of months and came back stronger than ever in mid-2020, with the debt market perhaps taking just a little longer to catch up to equity. The large users didn't seem to flinch with lease agreements. We signed multiple leases within 6 months of the shutdown order, including a million square foot lease on the morning of March 20, 2020.

Vizzoni: Any insight as to what you are seeing in regard to lenders in terms of construction financing and permanent financing for warehouse and logistics sites?

Csik: There is a lot of capital looking to get out the door on both the debt and equity side. Banks continue to provide historically low interest rates and are landing at around 65% LTC on construction loans and may bump up the LTC/LTV a bit for permanent loans. LP's (limited partners) are offering aggressive waterfall structures with GP promotes. Our capital stack is flexible and changes based on the particular deal and asset. We've structured JV's with land owners, GP/LP deals, traditional debt and 100% Rockefeller Group capital for deals.

The debt and equity markets are there for smaller developers, as well as on an entitled site. The issue for smaller developers is the approval process. It's very difficult to find outside capital without a building permit in hand. The entitlement process is long, expensive and constantly fluid. Upstream capital has to be patient and forgiving, which is difficult to find from a third party. I give a ton of credit to the smaller developers who put their own money at risk during entitlements and then follow it up by signing the line on a recourse loan. Lucky for me, Rockefeller Group and our partners have the capital to fund all stages of development.

Vizzoni: What do you think are the biggest challenges facing the warehousing logistics industry today and what do you envision the future will look like for the industry?

Csik: Within New Jersey and almost all locations with port access and larger populations, the demand for space is there. E-commerce isn't the only reason but it's the largest reason why I see a runway left beyond 3 years. Of the general retail sales, e-commerce only accounted for about 10% of those sales in 2018, and still only accounts for about 15% of total retail sales. While those numbers are a bit unfairly deflated due to how "e-commerce" is defined, even if you bump them up by a few points, there is still a ton of room to grow.

If the demand is there, the growth will continue. Developers and governmental agencies need to work together on smart growth. While the market is doing well is the time that our industry should focus on working with legislators to create practical requirements that the market can sustain. Municipalities, utility companies and developers can fund infrastructure projects and drive smart development while the market is hot. There shouldn't be a line in the sand between anti-development and pro-development. There is a happy medium and if we have the conversations, the industry and government will be able to work together to help the communities we all operate in.

About the authors:



Zachary Csik is Director, Real Estate Development for Rockefeller Group's NJ/PA Region. He is focused on the development of multiple projects in New Jersey and the company's master-planned industrial project in Lehigh Valley, Pennsylvania. Mr. Csik's responsibilities also include identifying and acquiring other commercial and mixed-use projects in the region. Mr. Csik has been involved in New Jersey commercial real estate for more than ten years, having most recently worked as Land Acquisition & Development Director for American Properties Realty, Inc.

Zachary has also performed various real estate development duties for residential projects in more than a dozen New Jersey townships. Mr. Csik has a bachelor's degree in Economics from Virginia Polytechnic Institute and State University and is a licensed real estate salesperson in the state of New Jersey. He is also an active member of NAIOP.



Anthony J. Vizzoni is a partner in Becker LLC, and he Chair's the Firm's Business Services Group. He is also Co-Chair of the Firm's Trucking and Logistics Group. He focuses his practice on commercial real estate, landlord and tenant matters, business sales, acquisitions and mergers with emphasize in the trucking industry, financing and corporate transactional matters. Mr. Vizzoni has vast legal, operational and business experience in all aspects of real estate investment, real estate financing and real estate development.

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