SPECIAL ADVERTISING SECTION

CEO'S FORECAST MESSAGE

2015

Anthony R. Coscia, Partner

NJBIZ®

ALL BUSINESS ◆ ALL NEW JERSEY

2014 marked another year of steady growth in our transactional practice areas. These practices have benefited from a healthy, competitive economy across a number of sectors in which our firm strategically focuses in New Jersey. Riding broader economic trends, we expect this growth to continue in 2015 and beyond.

Real Estate

Real estate is one of the largest sectors we serve. We expect continued growth in the New Jersey multifamily market, as a result of both inherent demand for such product and spillover effects from the extremely strong NYC residential market. The demonstrated preference for urban living among millennials and empty nesters will result in more approvals and construction starts for rental product, and perhaps an increase in condominium projects. The ongoing uncertainty with regard to affordable housing will hopefully be resolved in 2015, which could further enhance construction projects. On the commercial side, we are optimistic that the much-maligned non-residential development fee will be eliminated. We expect continued interest in repositioning suburban complexes, both office and retail, as the state's population and employment centers continue to move away from those locations. To no one's surprise, access to public transit will remain a major locational driver. We believe there will be strong ongoing interest in the state's incentive programs, Grow NJ and ERG, as they have made a real difference in sparking development where it was otherwise unlikely to occur.

The general optimism in the economy and demand for multi-family housing will result in continued growth in the volume of real estate finance transactions we close for our clients. From a lending perspective, however, there is caution about the number of units scheduled to come on line over the next 2-3 years along the North Jersey waterfront.

Financings in the industrial sector will continue to be strong, especially in the port communities following completion of the Bayonne Bridge elevation project. Office and retail continue to be weak links for New Jersey, and we do not expect many financings in these sectors in the year ahead.

Middle-Market Commercial & Industrial

Countervailing forces suggest continued sluggishness in the commercial and industrial sectors of the middle-market for new money credit transactions in 2015. Middle-market C&I customers will likely continue their general reluctance to over-leverage assets that has persisted since the economic downturn. Coupled with an abundance of cash on balance sheets to finance most ordinary course and smaller transactions, this will likely keep demand for new money loans tepid. Accordingly, most of the lending activity in this sector will continue to be "amend and extend" type deals within existing loan portfolios. Some businesses, however, may be motivated to risk an increase in leverage to finance long-stalled significant corporate transactions as they see signs that the historically low interest rate environment may not continue into the latter half of 2015.

Public Finance

In 2014, we continued to see the direct bond purchase as a popular option in tax-exempt financings. While some larger institutions continued to issue letters of credit to support large variable rate issues, direct purchases grew due to the flexibility of this structure, and concern lingered about letter of credit exposure and potential regulatory changes. This created a tight market with banks competing to offer low, if not fixed, rates for longer terms. We expect that trend to continue in 2015 with some optimism for growth in the number of new money transactions as both issuers and borrowers look to take advantage of a continued low interest rate environment with a more confident economic outlook. In this environment, P3s should continue to gain in popularity as an option for more traditional public finance projects, and, in New Jersey in particular, borrowers will continue to look to maximize incentives from available state programs to help finance their projects.

Infrastructure Finance

Historically the U.S. has been slow to embrace private finance for infrastructure projects because the municipal bond market has been such an efficient, and inexpensive, source of funds. As a result, in the past, public sponsors only looked to private capital to fill funding gaps, where public funds alone were insufficient. Increasingly, however, private finance isn't seen as "financing of last resort". Sponsors are relying on private finance for reasons other than the cost of capital, such as achieving budget certainty, reducing the risk of cost overruns, accelerating project delivery, and introducing innovative construction techniques. For all of these reasons, the pipeline of P3 projects in the U.S. has increased in recent years, spanning a range of infrastructure modes, and we expect continued growth in the pipeline in the year ahead.

Other factors also suggest that private investment in infrastructure is poised for significant growth. These include a large amount of private capital available for infrastructure investment and a growing recognition that P3s, if structured properly, can offer mutual benefits to the private and public sectors.

Like other states, New Jersey faces significant challenges in identifying financing sources for maintaining its existing infrastructure assets, not to mention building new assets to accommodate future growth. We expect New Jersey will be at the forefront of discussions about marrying private financing and public infrastructure.

Energy

We expanded our work for the energy sector with the arrival of several practitioners focused on project and regulatory issues. The continued low price of natural gas is likely the single biggest factor impacting energy transactions in New Jersey. Construction of new, gas-fired generation plants continues, even after the federal courts declared unconstitutional a state statute that was designed to subsidize such projects.

The low cost of natural gas has not deterred development of solar generation. One area of focus in New Jersey is the development of large-scale solar projects in brownfield areas. On the other hand, the low cost of natural gas likely has deterred the development of off-shore wind farms.

In the regulated utility sector, the focus on hardening electric distribution systems in the wake of recent major storms will likely continue in 2015. State regulators continue to encourage investment in system upgrades. One looming challenge for regulated electric utilities is an increased emphasis on distributed generation (microgrids, combined heat and power, and similar technologies), which reduces system throughput and utility revenues. Conversely, distributed generation is a potential upside for the unregulated entities that can provide such equipment and services and the retail customers who may benefit from such technology. We expect these trends to have a positive impact on our energy practice in 2015.

WINDELS MARX | Windels Marx Lane & Mittendorf, LLP

120 Albany Street Plaza, 6th Floor
New Brunswick, NJ 08901

One Giralda Farms
Madison, NJ 07940

www.windelsmarx.com
Twitter @WindelsMarx