

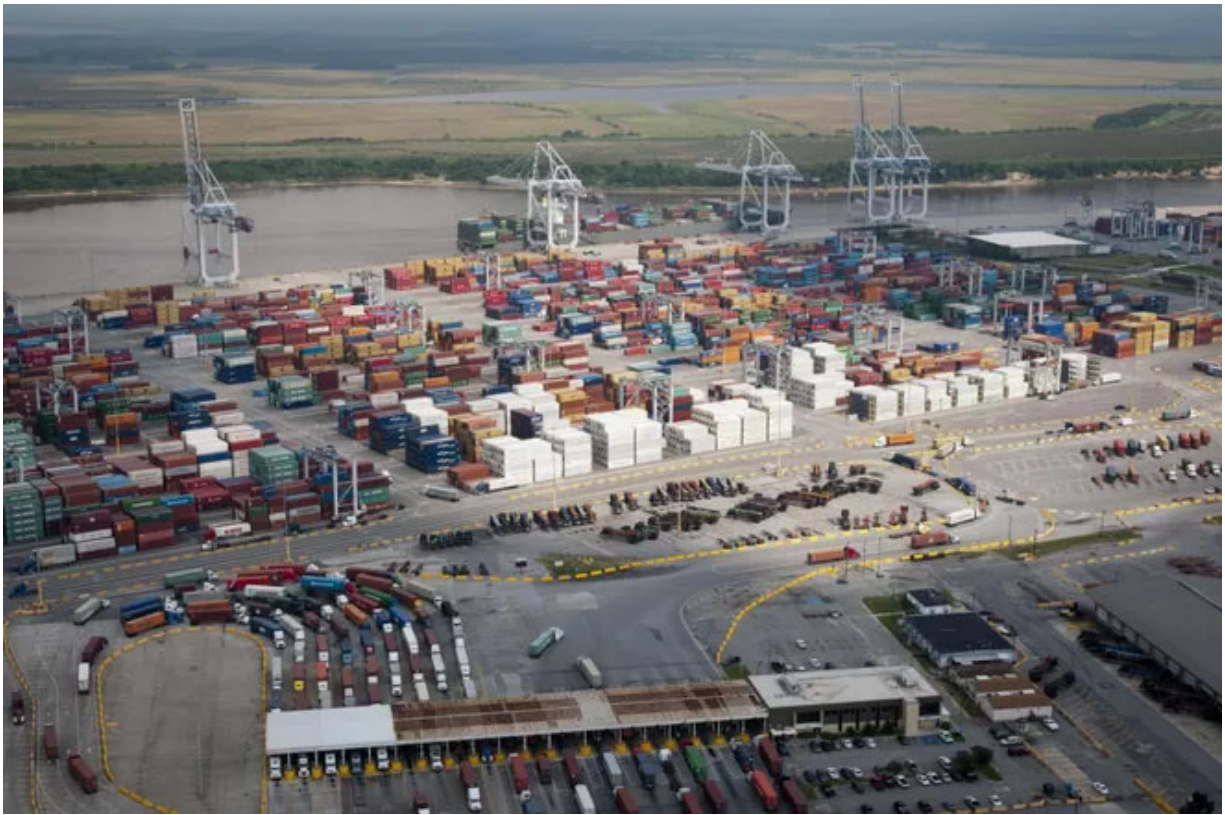
Pressure At The Ports: Expansion Efforts Open Avenues For CRE

September 11, 2022 | Matt Rothstein, Ciara Long, Jarred Schenke, Adam Bednar, Katharine Carlon, Bianca Barragán, Molly Armbrister

After more than two years of severe backups at major U.S. ports caused the tightest — and priciest — market in memory for port-adjacent warehouses, expansions of ports themselves and the industrial markets around them mean new opportunities for commercial real estate.

Perennially busy ports like Houston and Savannah, Georgia, are beefing up their capability with expansion projects fueled in part by an infusion of more than \$1B in federal funding, while smaller ports like Philadelphia are seizing the opportunity to raise their international profile, investing in their growth and establishing new shipping routes.

These actions are part of a response to distribution challenges that date back to the early days of the pandemic in 2020, when a sudden shift in consumer buying habits, combined with coronavirus-related lockdowns and work restrictions, caused a breakdown in the international links that make up the supply chain. Other disruptions since then, including Russia's invasion of Ukraine, have further complicated the situation, while warehouses filled to the brim have left container ships full of goods floating off both coasts as the holiday shopping season approaches.



The federal government has responded with various rounds of funding, including the announcement of \$684M (<https://www.maritime.dot.gov/newsroom/president-biden-adds-2343-million-bolster-americas-port-infrastructure>) in Port Infrastructure Development Program grants. Earlier in the year, the U.S. Department of Transportation's Maritime Administration announced \$450M in grant funding (<https://www.maritime.dot.gov/newsroom/president-biden-adds-2343-million-bolster-americas-port-infrastructure>) under the Bipartisan Infrastructure Law.

“Under President Biden (<https://www.bisnow.com/tags/joe-biden>)’s leadership, we are making a once-in-a-generation investment in our ports and intermodal infrastructure to move goods faster, strengthen supply chain resiliency, support economic vitality at both the national and regional levels, and address climate change and environmental justice impacts,” acting Maritime Administrator Lucinda Lessley said in a May statement.

The level of activity and congestion at the ports has reached a point where the very definition of port-adjacent real estate is shifting to accommodate increased need, opening new avenues for development in larger concentric circles around the nation’s ports.

“Landlords understand where the market is, they understand that these tenants don't have options, and it's being reflected in the rental rates that these tenants are seeing and absorbing,” CBRE (<https://www.bisnow.com/tags/cbre>) Executive Vice President Larry Schiffenhaus said of the industrial market around the Port of New York and New Jersey (<https://www.bisnow.com/tags/port-of-new-york-and-new-jersey>). “There's no availability, there's very limited new products coming on the market.”

So, industrial landlords look to areas not historically considered part of the port region, such as the New Jersey town of Linden, 20 miles from the port, Schiffenhaus said. Realterm (<https://www.bisnow.com/tags/realterm>), an investor specializing in transportation and logistics real estate that owns 38 properties in the New York and New Jersey logistics market, has closed deals as far afield as Totowa, New Jersey, 25 miles from the port, in recent years.

Those developments are necessary, PANYNJ Director Beth Rooney said. “Our Port Master Plan projected that we will double, if not triple, our cargo volume by 2050. So the amount of development that needs to occur in order to handle that volume is significant,” she said.

In the meantime, the lack of space is pushing rents up by as much as 40%, according to Schiffenhaus and Marc Duval (<https://www.bisnow.com/tags/marc-duval>), JLL (<https://www.bisnow.com/tags/jll>)’s New Jersey-based managing director for capital markets. Even landlords of Class-B industrial space have introduced rent hikes around those levels, leaving tenants with nowhere else to go in pain.

“We've seen many tenants go through what we refer to as seven stages of grief. It's basically just a process of tenants going from grievance to acceptance,” said Schiffenhaus, adding that many tenants looking to renew contracts this year that were originally signed a decade ago can face a 100% increase or more.

More than 770 miles to the south, the warehouse radius around the Port of Savannah (<https://www.bisnow.com/tags/port-of-savannah>) is similarly expanding as stoppered West Coast ports divert cargo to their eastern counterparts (<https://www.wsj.com/articles/u-s-shipping-backups-shift-to-east-coast-and-gulf-coast-ports-11660755401>).

A decade ago, industrial developers aimed to be within 10 miles of the Port of Savannah, Duke Realty (<https://www.bisnow.com/tags/duke-realty>) Vice President Brian Sutton (<https://www.bisnow.com/tags/brian-sutton>) said.

“Now, inside of 20 miles is pretty sought after,” said Sutton, whose firm owns 9M SF of distribution space near the coastal port. “The development will just continue to move out further from the port.”

The Port of Savannah is the nation's fourth-largest port and also its fastest-growing one, boosted recently by the redirection of ships originally destined for West Coast ports. After deepening the Savannah River (<https://buddycarter.house.gov/news/documentsingle.aspx?DocumentID=8960>) to allow larger container ships, the port has seen an increase in the number of twenty-foot equivalent units, or TEUs, unloading onto its 10,000 feet of contiguous berth space.

The port is expected to handle 6.5 million container units by the end of this year, Georgia Ports Authority Director of Economic and Industrial Development Stacy Watson told *Bisnow* via email. The authority is projecting that container volume will increase 106% by 2030.

That increase has been a boon for Savannah's industrial sector, with a record low vacancy rate of just 0.6% of the market's stock of 94.2M SF, according to Cushman & Wakefield's Q2 report. Tenants leased more than 8M SF during the first half of the year, and even though 22.4M SF of new warehouse space is under construction, 60% of that is pre-leased.

“Based on the number of pending leases and tenants in the market, it is likely that all speculative space under construction and delivering in the next 12 months will be leased prior to completion and the market will maintain a vacancy rate below 1.0% through at least the first half of 2023,” Cushman & Wakefield partner Stephen Ezelle said in the report.

Even the Port of Baltimore, the 18th-largest in the nation and a market with plenty of room for development, is seeing its radius expand.

“Clearly, the closer [you are to] the port, the better off you are, but people are willing to go up to an hour's drive,” said James Lighthizer, principal and managing partner at Chesapeake Real Estate Group.

In four of the last five years, demand for industrial space near the Port of Baltimore has outpaced the supply of new deliveries by millions, sometimes tens of millions, of square feet, according to JLL's most recent Market Beat report. Over that same period, vacancy has dropped from the 8% area to about 3% while rents increased from about \$5.50 per SF to more than \$8 per SF on average.

The Port of Baltimore's biggest drawback has been its inability to ship double-stack containers via rail to the Midwest. But a partnership between Maryland, the federal government and CSX is addressing that via the \$466M overhaul of the antiquated Howard Street Tunnel. The project will improve clearance in the 127-year-old tunnel and at 21 locations between Baltimore and Philadelphia, William P. Doyle, executive director of the Maryland Port Administration, Port of Baltimore, said in an email.

"Our message now to international shippers is that the days of only considering West Coast ports for big ships are over. Baltimore can handle those big ships and some other East Coast ports can as well," Doyle said.

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An increase in shipping traffic to Port Houston (<https://www.bisnow.com/tags/port-houston>) in the last two years changed the course of that area's industrial market, driving a spate of new development activity and a \$2B expansion project at the port itself.

Total tonnage at Port Houston is up 24.8% for the year through July, shrinking close-in port real estate inventory to between 2% and 4%, reversing an industrial oversupply insiders were fretting about (<https://www.bisnow.com/houston/news/industrial/supply-chain-snarls-are-prompting-companies-to-expand-their-distribution-networks-and-houston-is-reaping-the-benefits-110344>) a mere two years ago.

“The days of Houston being just a local distribution market are done,” Stream Realty Partners (<https://www.bisnow.com/tags/stream-realty-partners>) Executive Managing Director Matteson Hamilton (<https://www.bisnow.com/tags/matteson-hamilton>) said at a mid-August *Bisnow* event (<https://www.bisnow.com/houston/news/industrial/hou-port-and-industrial-114442>), highlighting that leases of upward of 1M SF are becoming commonplace as supply chains reorganize.

Nearly 7.7M SF of new industrial real estate has come online in the three submarkets in and around the port since mid-2020, and another 7.6M SF is underway, according to Houston-based Partners (<https://www.bisnow.com/tags/partners>) data.

About 40% of that is pre-leased, Northmarq (<https://www.bisnow.com/tags/northmarq>) Director of Debt and Equity Warren Hitchcock (<https://www.bisnow.com/tags/warren-hitchcock>) said. Demand has outpaced supply for five consecutive quarters, and the vacancy rate has shrunk precipitously to around 2% in all port-proximate submarkets.

To keep up with so much new volume, Port Houston is spending big. Per Port Houston Chief Commercial Officer John Moseley (<https://www.bisnow.com/tags/john-moseley>), the port has historically tried to keep operational capacity roughly 20% in front of demand — a tall order in the wake of an unexpected cargo spike.

Through June, Port Houston handled just under 2 million TEUs, an 18% increase over the first half of last year, which was itself a record year for container volume, the organization announced last month.

“Fortunately, we already [had] significant improvements in the pipeline to accommodate growth and now are accelerating infrastructure projects to the tune of over \$1B on the water side with the expansion of the Houston Ship Channel and over \$1B on the land side with significant upgrades to the public marine terminals over the next decade,” Moseley said.

He said the historic disruption to the global supply chain over the last two years has forced the port to re-evaluate strategies and accelerate capacity improvements, including expanding the channel from 530 feet to 700 feet to accommodate larger and more numerous vessels and reviewing proposals (<https://www.bisnow.com/houston/news/industrial/hou-port-and-industrial-114442>) for a potential third container terminal.

“We’re dealing with new shipping behaviors and a substantial increase in volume we haven’t seen before, and that’s forced us to put our foot on the gas,” Port Houston Economic Development Manager Rina Lawrence (<https://www.bisnow.com/tags/rina-lawrence>) told *Bisnow*.

A \$330M investment in 2016 from the state of Pennsylvania allowed the port of Philadelphia, dubbed PhilaPort, to get a head start on its own expansion, set to be complete next year, that has afforded a smaller, historically overlooked port to better keep pace with its larger brethren on the coasts.

Pennsylvania Gov. Tom Wolf in February announced another \$246M for port improvements, including adding equipment that can lift two full shipping containers at once, targeting efficiency in addition to sheer capacity. Several of PhilaPort’s 13 terminals are undergoing transformations, led and funded by the private companies that operate the facilities, in parallel with the port’s work.

Buoyed in part by the likelihood of federal funding from the bipartisan infrastructure bill, PhilaPort released a capital improvement plan (<https://www.philaport.com/vision/>) in July laying out \$3.5B worth of further desired improvements. Leadership is also engaged with the developers of two mega-developments that could add as much as 25M SF of industrial space between them over the next decade or so.

In late August, PhilaPort welcomed the maiden call of its first shipping route to China

(<https://www.bisnow.com/philadelphia/news/industrial/philaport-new-china-shipping-route-global-supply-chain-114529>), positioning Packer Marine Terminal (<https://www.bisnow.com/tags/packer-marine-terminal>) as a new alternative for companies that shifted their supply chains from the West Coast to the East Coast in the past year, only to find bottlenecks (<https://www.wsj.com/articles/u-s-shipping-backups-shift-to-east-coast-and-gulf-coast-ports-11660755401>) at larger ports like New York/New Jersey and Savannah.

“Just given New York’s volume, if a global shipper has warehousing in the Northeast, they go through New York,” PhilaPort spokesperson Joe Fox said. “That’s why [the China (<https://www.bisnow.com/tags/china>) shipping route] is such a big deal, because it allows us to go after that business.”

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The expansion efforts around the U.S. are restrained by a few factors. Land is a limited resource, and goods can only travel so far before it’s no longer considered “port-adjacent.” Plus, the wheels of government funding and major infrastructure overhaul move slowly, and some of the existing property is too old to work efficiently in a modern supply chain.

Buildings that are 50 or more years old don’t have the space for efficient vehicle fleet movements or don’t have tall enough clearance heights or the right amount of loading space, Realterm (<https://www.bisnow.com/tags/realterm>) Vice President for Acquisitions Derek Fish (<https://www.bisnow.com/tags/derek-fish>) told *Bisnow*.

Class-A spaces, meanwhile, have approximately 1% vacancy, JLL (<https://www.bisnow.com/tags/jll>)’s Duval said. Duval said the solution is to allow for more development — or to make developers “get creative about potentially knocking down older, obsolete industrial buildings and putting up a newer Class-A warehouse.”

Some developers are already jumping on the conversion trend to get their piece of port-adjacent pie.

In South Philadelphia, a former refinery space with an existing rail connection to PhilaPort and a small berth from the site's previous life is being redeveloped by Hilco Redevelopment Partners (<https://www.bisnow.com/tags/hilco-redevelopment-partners>) into the Bellwether District (<https://www.bisnow.com/tags/bellwether-district>), an e-commerce and logistics park.

Keystone Trade Center, being developed into 15M SF of industrial space by NorthPoint Development (<https://www.bisnow.com/tags/northpoint-development>) in Bucks County north of Philadelphia, also has a rail connection and a small berth from its previous life as a steel (<https://www.bisnow.com/tags/steel>) manufacturing complex.

PhilaPort and NorthPoint have engaged in discussions about how to best connect the two sites via infrastructure that reduces the number of steps a product takes from being manufactured in China to being delivered to its end user, according to PhilaPort representatives and NorthPoint Vice President of Development Jeremy Michael.

"We've seen a tremendous level of [leasing] activity out of the gate as we have started construction," Michael said. "I'd hate to speculate as to how much of that activity would view PhilaPort as an alternative to Newark, but I definitely think that it's the case for some."

For its part, Houston is relying on its built-in land availability and development-friendly political climate to help push back against the market forces that are keeping American industrial real estate markets tighter than they've perhaps ever been.

CenterPoint Properties (<https://www.bisnow.com/tags/centerpoint-properties>) Senior Vice President Rives Nolen (<https://www.bisnow.com/tags/rives-nolen>) drew a contrast between Houston and the ports of Los Angeles and Long Beach, the country's two largest. Houston is in little danger of running into the same kind of land constraints facing West Coast ports, where many more restrictions and a more arduous entitlement process can slow development, Nolen said.

“That's why we're constantly growing — we have relatively low barriers to entry for development, and so particularly around the port, there's quite a bit of land that can be put into production fairly quickly,” he said. “That's why you're seeing a lot of developers with projects out there, which are meeting the demand as we continue to see container volumes increase at the Port of Houston.”

As for the ports of Los Angeles and Long Beach, catastrophic congestion that epitomized the supply chain issues for the country is finally easing after two years.

“Last year, we had our best record ever in terms of total volume at the Port of LA, and, as such, the busiest any Western Hemisphere port has ever had,” Port of Los Angeles spokesperson Phillip Sanfield said.

He said he expects that this year will come close to but not eclipse 2021 levels.

Vacancy in the second quarter of this year didn't crack 2% in the South Bay submarket closest to the port or in the Inland Empire, according to data from NAI Capital. Development is coming to ease the pressure. Southern California had 42.6M SF of industrial space under construction as of mid-2022, more than 30M SF of it in the Inland Empire.

U.S. Transportation Secretary Pete Buttigieg last week announced a \$20M grant (https://www.portoflosangeles.org/references/news_090722_raise) to the Port of Los Angeles aimed at streamlining truck access to the port.

And pent-up demand is also easing: Representatives from both ports say that as recently as January, there were over 100 ships anchored off the ports, waiting to unload. Now, the crowd is usually between 15 and 25 ships.

“The port complex is very close to being caught up,” Port of Long Beach Executive Director Mario Cordero said via email.

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See Also: [How Hazard Assessment Technology Is Helping CRE Companies Stay A Step Ahead Of Disaster \(/national/news/sustainability/environmental-hazard-risk-footprint-coastal-risk-consulting-studiob-114573\)](#)

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