MAJOR US DEEP-WATER PORTS

Ports and their Impact on Commercial Real Estate

By Craig Van Pelt

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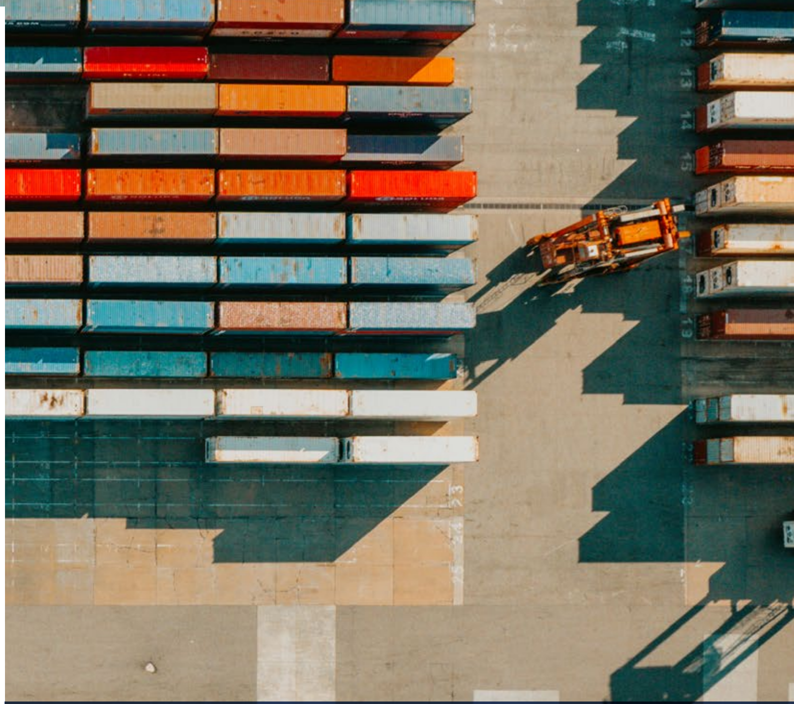

EXECUTIVE SUMMARY

Deep-Water Ports

- Ports are handling higher volumes of containerized cargo, driven by growing e-commerce and global trade recovery.
- The surge in cargo has led to congestion, particularly in major West Coast ports. This has spurred significant investments through government initiatives and private investment.
- A softening job market, cautious consumers, and dwindling savings may impact cargo shipments in the next 2 to 3 quarters.
- There has been a slight shift from West Coast ports to East Coast and Gulf ports due to labor disputes, the expansion of the Panama Canal, and trade diversions.

Industrial Real Estate Markets

- After several years of outsized growth, the overall industrial market has slowed in the past 12-months, with increasing vacancy and available sublease space
- Rent growth is returning to pre-pandemic levels, with the most recent year-over-year growth at 2.0%.

Warehouse and Distribution Spaces in Port-of-Call Markets

- Distribution/Warehouse spaces in port markets that have had historical levels of new deliveries are experiencing slowing growth rates.
- New construction of distribution/warehouse buildings has slowed considerably (down 23% from 1-year ago) as owners/developers respond to increasing costs and lessened demand.

INDUSTRIAL REAL ESTATE IN PORT-OF-CALL MARKETS WOBBLE AFTER SEVERAL YEARS OF STRONG GROWTH.

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PORTS OVERVIEW

The overall health of U.S. ports is mixed, reflecting both resilience and challenges. Ports have seen a rebound in activity, with record volumes of cargo driven by post-pandemic recovery, e-commerce growth, and robust international trade. Investment in infrastructure, automation, and sustainability initiatives signals progress towards modernization and efficiency. However, persistent issues such as congestion, supply chain disruptions, and labor disputes have exposed vulnerabilities, particularly in major ports like Los Angeles and Long Beach. While improvements are underway, U.S. ports face ongoing pressure to adapt to evolving global trade patterns, capacity demands, and environmental standards.

U.S. consumer spending is a key driver of the U.S. economy, accounting for nearly 70 percent of GDP. Recently, consumer spending has remained relatively strong, supported by a resilient labor market, wage growth, and savings accumulated during the pandemic. However, inflationary pressures and rising interest rates have begun to temper spending, particularly on discretionary items like durable goods. Despite these headwinds, essential spending on services, such as healthcare and housing, has stayed stable. Overall, the U.S. economy remains robust but faces uncertainties due to inflation, monetary tightening, and potential economic slowdown.

AFTER A 2023 SLOWDOWN, PORT ACTIVITY HAS REBOUNDED

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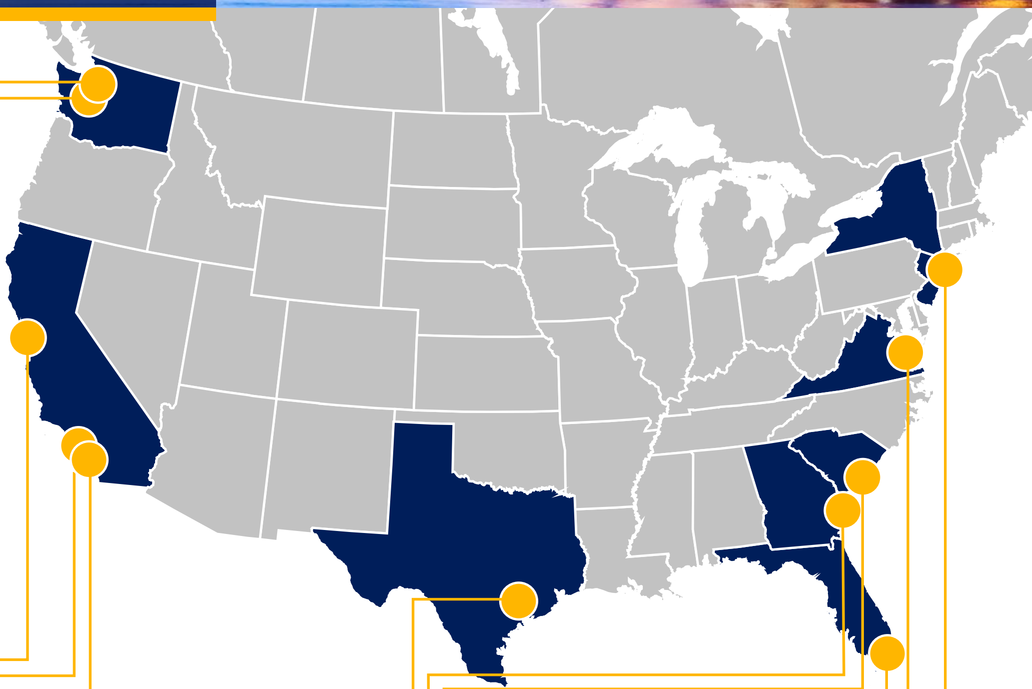
MAJOR US PORT MARKETS



SEATTLE

2	Number of Terminals
2	On-Dock Rail Access
10	Super Post Panamax Crane
6	Other Cranes
16	Total Cranes

TACOMA

4	Number of Terminals
4	On-Dock Rail Access
17	Super Post Panamax Crane
8	Other Cranes
25	Total Cranes

OAKLAND

5	Number of Terminals
0	On-Dock Rail Access
13	Super Post Panamax Crane
13	Other Cranes
26	Total Cranes

LOS ANGELES

8	Number of Terminals
8	On-Dock Rail Access
34	Super Post Panamax Crane
33	Other Cranes
67	Total Cranes

LONG BEACH

6	Number of Terminals
5	On-Dock Rail Access
61	Super Post Panamax Crane
14	Other Cranes
75	Total Cranes

HOUSTON

2	Number of Terminals
2	On-Dock Rail Access
16	Super Post Panamax Crane
3	Other Cranes
19	Total Cranes

SAVANNAH

2	Number of Terminals
2	On-Dock Rail Access
30	Super Post Panamax Crane
4	Other Cranes
34	Total Cranes

CHARLESTON

4	Number of Terminals
2	On-Dock Rail Access
24	Super Post Panamax Crane
3	Other Cranes
27	Total Cranes

MIAMI

1	Number of Terminals
1	On-Dock Rail Access
6	Super Post Panamax Crane
7	Other Cranes
13	Total Cranes

VIRGINIA

2	Number of Terminals
2	On-Dock Rail Access
28	Super Post Panamax Crane
0	Other Cranes
28	Total Cranes

NEW YORK/NEW JERSEY

5	Number of Terminals
5	On-Dock Rail Access
40	Super Post Panamax Crane
21	Other Cranes
61	Total Cranes

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CONSUMERS

Inflation Drops As Consumers' Savings Decrease

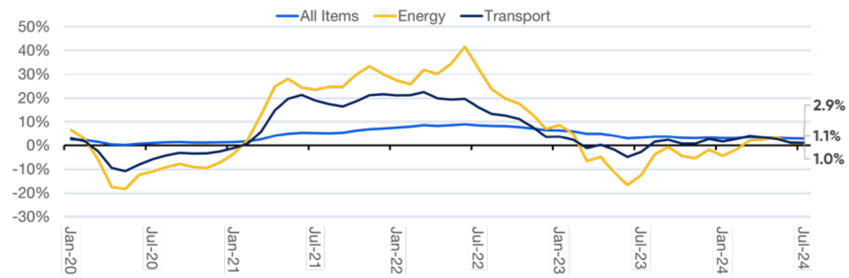
U.S. ports are closely tied to consumer behavior, with fluctuations in spending having immediate effects on shipping patterns, port operations, and overall trade activity. Spending indicators are mixed as inflation stabilizes amid less available disposable income.

CONSUMER PRICE INDEX

The Personal Consumption Expenditure (PCE) index is a measure of prices paid for goods and services. Energy and transportation costs, which impact ocean shipping, have slowed in the past 12-months.

Consumer Price Index

(All Items, Energy, & Transport) (July 2024)



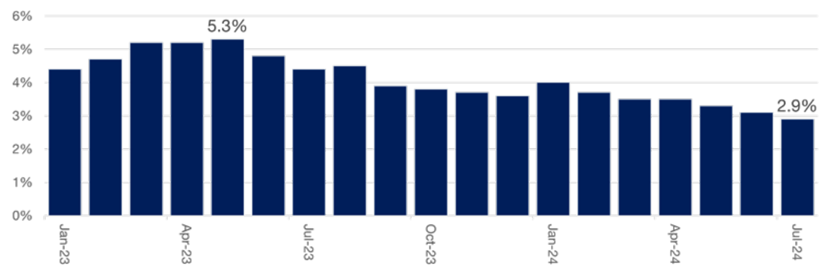
2.9% Overall CPI has stabilized but is still elevated compared to pre-Covid levels.

SAVINGS & DISPOSABLE INCOME

Personal savings increased during the pandemic. However, those savings have steadily declined over the past 18-months, which has decreased the percentage of personal savings to disposable income.

Personal Savings as a Percentage of Disposable Income

(July 2024)



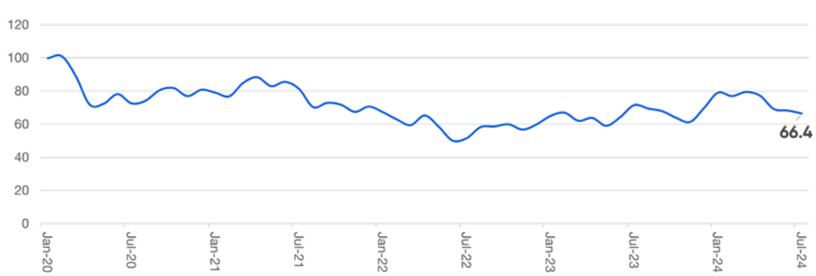
6 No. of consecutive months payment card transactions increased from the previous month.

CONSUMER SENTIMENT INDEX

While consumer sentiment has generally improved post-pandemic, it has trended lower in 2024 as consumers sour on the cloudy economic landscape. Current levels (66.4) are well-below historic averages (83.2).

Consumer Sentiment Index

(All Categories: July 2024)



66.4 Consumer Sentiment average since the year 2000, the average since the start of the pandemic is 71.2

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Source: U.S. Bureau of Labor Statistics
Surveys of Consumers, University of Michigan,: Consumer Sentiment

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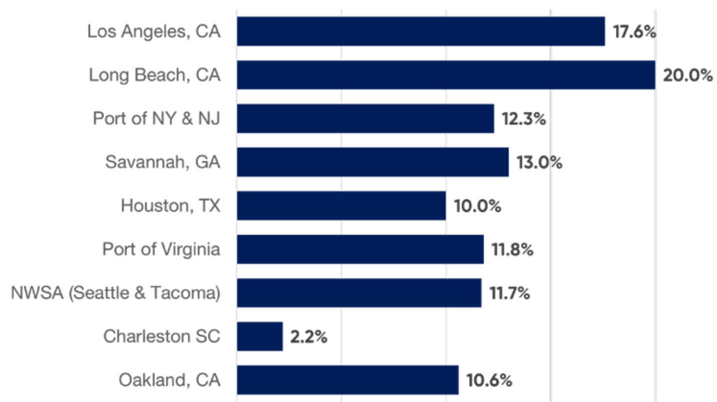
PORT STATISTICS

Industrial Cap Rates Float Higher as Risk Increases

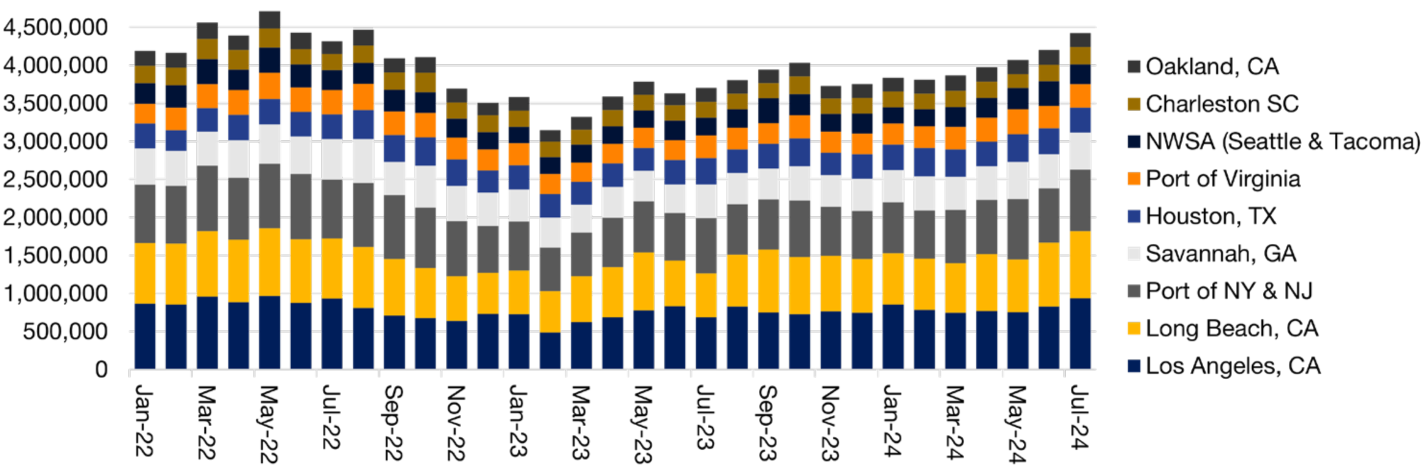
Capacity in deep-water ports across the United States have surged, increasing twenty-foot equivalent units (TEUs) throughput for 14 of the last 17 months. This represents a 40.5 percent increase since February 2023. Levels in July 2024 are at the highest level since September 2022.

US international trade heavily depends on ports, with about 90 percent of the country's overseas trade by volume passing through it maritime ports. The Ports of Los Angeles and Long Beach improved the most through the first 7 months of 2024, compared to the same period of 2023. Except for Charleston, all the major US ports in the chart below have increased more than 10 percent in terms of TEU throughput in the past year.

Cargo TEU Throughput
Change H1 2023 to H1 2024



Cargo TEU Throughput by Major Deep-Water Port



Source: Bureau of Transportation Statistics
Note: Twenty-foot Equivalent Units (TEUs) are a standard measure used in shipping to describe the capacity of container ships and terminals.

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PORT STATISTICS

Spot Container Ocean Freight Rates

Spot container ocean freight rates have experienced significant fluctuations in the past 4 years.

PRE-PANDEMIC STABILITY

Before the COVID-19 pandemic, rates were relatively stable but subject to seasonal fluctuations and market conditions.

PANDEMIC SURGE (2020-2021)

The onset of the pandemic caused an unprecedented surge in demand for container shipping, coupled with disruptions in supply chains and port congestion. This led to dramatic increases in spot rates, with some routes experiencing rates many times higher than usual.

PEAK AND VOLATILITY (2021-2022)

Rates reached record highs in 2021, driven by ongoing supply chain issues, high consumer demand, and limited shipping capacity. However, this period also saw significant volatility, with rates fluctuating due to ongoing disruptions and shifts in demand.

POST-PANDEMIC ADJUSTMENTS (2022-2023)

As the world began to adjust to post-pandemic conditions, spot rates began to decrease from their peak levels. Supply chain disruptions began to ease, and there was a gradual increase in shipping capacity.

CURRENT TRENDS (2024)

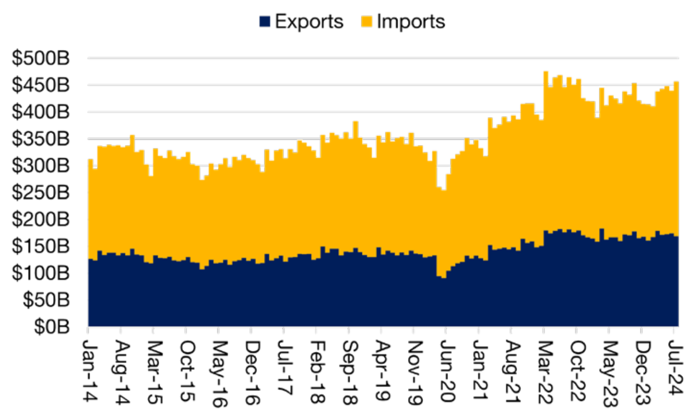
Spot rates have continued to stabilize but remain subject to fluctuations based on global economic conditions, changes in trade policies, and shifts in consumer demand. Rates are generally lower than the pandemic highs but can vary depending on specific routes and market conditions.

PORT PERFORMANCE

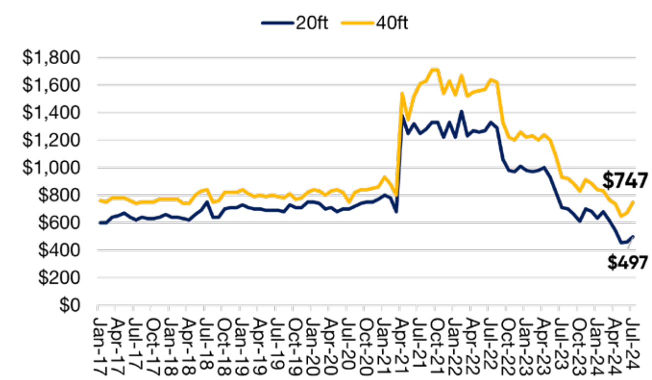
Imports and Exports Trending Higher

In 2024, major U.S. ports such as Los Angeles, Long Beach, and New York/New Jersey have seen a more balanced trade flow compared to the peaks and valleys of previous years. Import levels have moderated as supply chain disruptions eased and consumer demand stabilized, while exports have experienced modest growth driven by recovering global markets and trade agreements.

US Port Level Imports and Exports
by Dollar Amount



Spot Container Ocean Freight Rates
US to Shanghai, China



Source: U.S. Census Bureau: Economic Indicators Division USA Trade Online. Source: U.S. Import and Export Merchandise trade statistics
Note: Measures the total of merchandise that has physically cleared through Customs either entering consumption channels immediately or entering after withdrawal for consumption from bonded warehouses or Foreign Trade Zones under U.S. Customs and Border Protection (CBP) custody.

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REAL ESTATE TRENDS FOR WAREHOUSE/ DISTRIBUTION MARKETS NEAR PORT-OF-CALLS

INDUSTRIAL TRENDS

The second quarter of 2024 continued the trend of tepid growth within the U.S. industrial sector as occupiers look to navigate the fallout of significant investing during the pandemic and softening consumer demand. A wave of new construction deliveries has placed a significant amount of space on the market, slowing several years of rent increases. While asking rates are not expected to drop, the growth rate is slowing to levels not seen since the end of the Great Recession. There are signs that this lull is likely only temporary as real U.S. business inventories and good imports that spent most of last year in decline have resumed growth in recent months meaning the volume of goods flowing through distribution centers across the U.S. is back on the rise.

Industrial Port-of-Call Markets

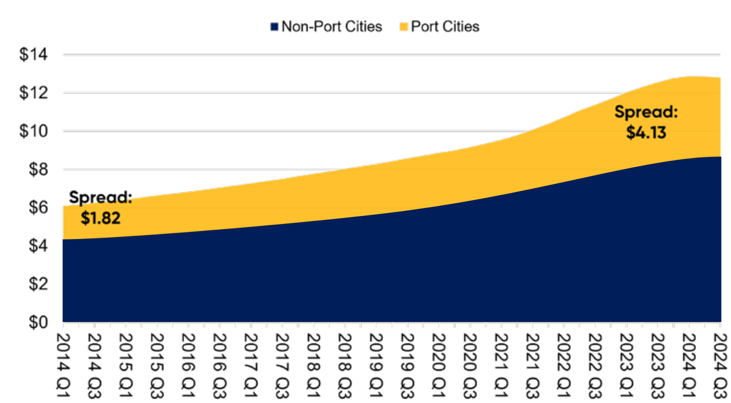
- Tenants have a window to negotiate, particularly for early renewals as new supply additions will increase vacancy in the near-term and cause rent growth to decelerate further, 2024 rent growth is on pace to register the slowest growth since 2012.
- While overall space availabilities are growing, demand for mid-size spaces in the 75,000 to 150,000 range continues to grow, as occupiers move away from spaces 300,000 square feet and larger.

LEASE SPREAD

Industrial Vacancy Moves Higher as New Product Delivers

- Warehouse/distribution facilities within markets adjacent to a deep-water ports of call have historically leased at higher rates compared to non-port markets.
- Since the start of 2021, the spread between port and non-port markets has increased an additional $1.24.
- Since the start of 2014, non-port cities' lease rates have grown 7.4% per year, while port cities' lease rates have increased 7.8% per year.

Lease Spread: Increase in SF Rates: Q1 2020 – Q3 2024
Major US Port Markets vs. Non-Port US Markets



Source: CoStar and Cresa
Note: Data includes industrial properties with a minimum size of 50,000 square feet, which includes only Class A and Class B spaces. The secondary uses are ;warehouse, distribution, and cold storage/warehouse facilities. The Port Cities were identified as markets near port-of-calls with a deep-water port. The Non-Port Cities include all other US industrial markets identified in CoStar and by Cresa. The real estate data was collected from CoStar and internal Cresa data.

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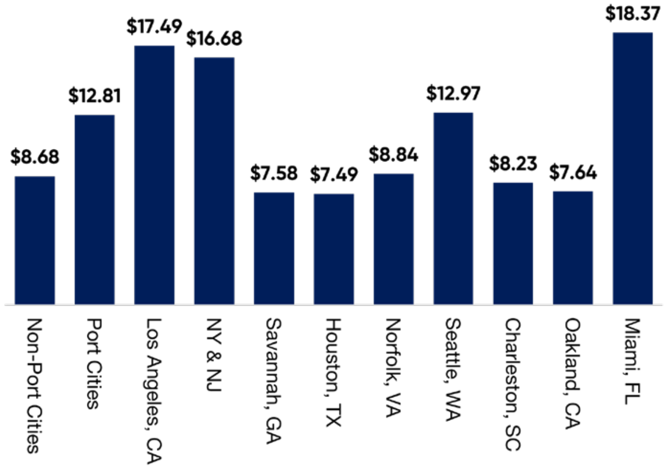
ASKING RATES

Lease Rates Slow

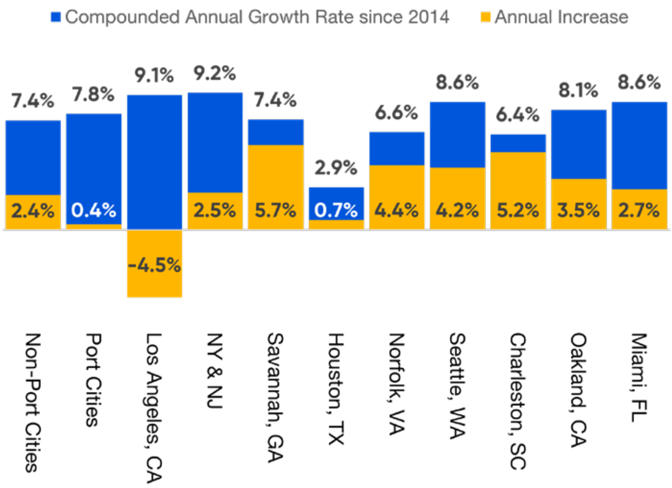
Asking rates in Los Angeles and Miami lead other port markets. Savannah, Houston, and Charleston rates are slightly below the average of non-port markets.

Asking Lease Rates
Major US Port Markets vs. Non-Port US Markets

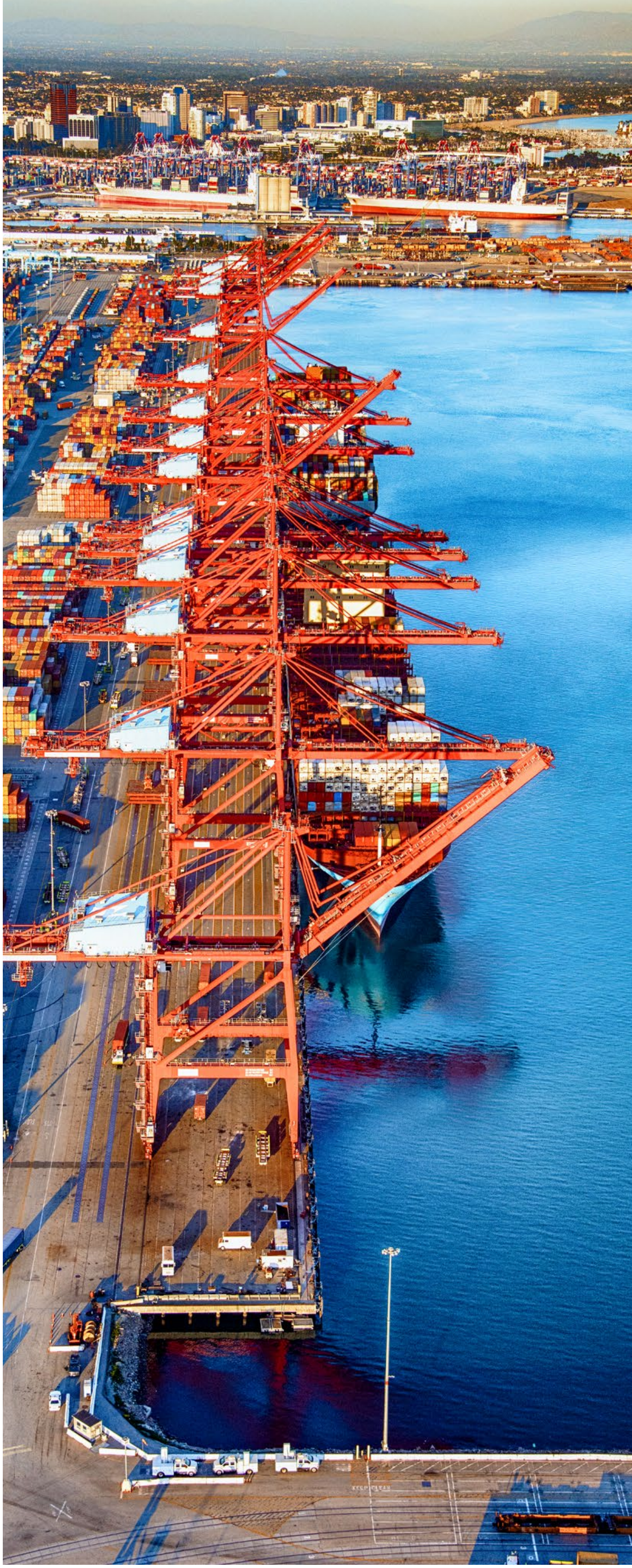


The compounded annual growth rate (CAGR) for asking lease rates since 2014 for both port and non-port markets is significantly higher than the past year, which shows that the market is slowing. Still, many of the port markets outpaced non-port markets in asking lease growth rate in the past year.

Asking Lease Rates
Major US Port Markets vs. Non-Port US Markets



Source: CoStar, Cresa, Data is through Q2 2024.
Note: The compound annual growth rate (CAGR) is the annualized average rate of growth between two given years, assuming growth takes place at an exponentially compounded rate The overall “port” data includes real estate data adjacent markets to 23 port-of-call markets.



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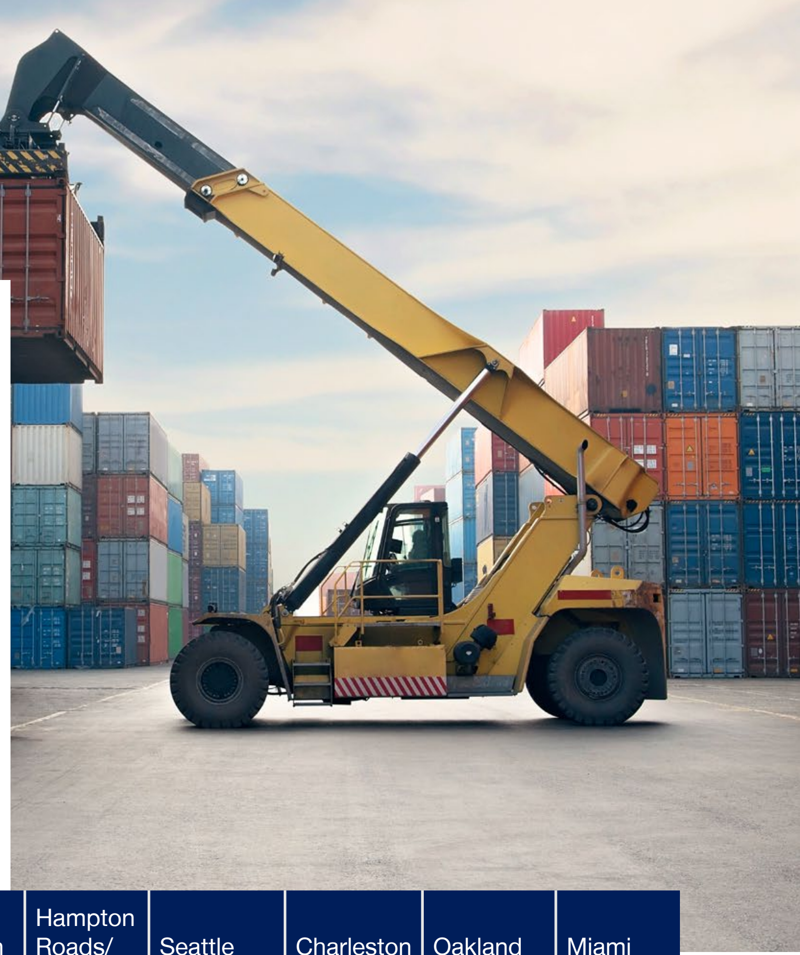

PORT MARKETS

Industrial Snapshot for Major Port-of- Call Markets

As asking rate growth has slowed, direct vacancy and availability rates are increasing. After several years of strong absorption and record construction, warehouse/ distribution spaces in markets near a port-of-call have begun to hit the brakes. Except for Norfolk/ Hampton Roads, new construction is trending lower. With markets that delivered the highest levels of new construction, availability rates are at the highest level in the past decade. The result is a window of opportunity for tenants with requirements in port markets as landlords look to decrease their inventory of space, particularly for good credit companies.

INDUSTRIAL MARKET(S)	Los Angeles	New York & Northern New Jersey	Savannah	Houston	Hampton Roads/ Norfolk	Seattle	Charleston	Oakland	Miami
Port of Call	Port of Los Angeles & Port of Long Beach	Port of New York & New Jersey	Port of Savannah	Port of Houston	Port of Virginia	NWSA (Seattle & Tacoma)	Port of Charleston	Port of Oakland	Port of Miami
Asking Rate (S/SF/Yr)	$17.49	$16.68	$7.58	$7.49	$8.84	$12.97	$8.23	$14.39	$18.37
12-Mo Change	-4.50%	2.50%	5.70%	0.70%	4.20%	4.20%	5.00%	3.30%	2.70%
Direct Vacancy Rate	6.50%	7.30%	12.70%	9.60%	5.60%	9.60%	13.20%	7.90%	7.00%
Direct Vacancy Trend	Higher	Higher	Higher	Higher	Higher	Higher	Higher	Higher	Higher
Availability Rate	11.20%	12.50%	18.20%	11.50%	11.40%	15.40%	20.50%	12.90%	12.90%
Availability Trend	Higher	Higher	Higher	Same	Higher	Higher	Higher	Higher	Higher
12-Mo Net Absorption SF	-2,130,781	-1,432,680	6,802,774	14,692,095	2,226,494	-202,630	1,529,442	-1,713,659	2,427,914
12-Mo. Net Deliveries SF	5,283,030	10,671,435	17,922,328	26,559,529	3,286,505	6,262,856	6,032,546	1,134,043	6,342,626
Under Construction SF	3,556,260	10,046,251	8,093,317	7,684,886	3,088,158	6,615,354	2,002,819	440,078	2,416,102
Under Construction SF Trend	Lower	Lower	Lower	Lower	Higher	Same	Lower	Lower	Lower

Source: CoStar and Cresa; thru Q2 2024

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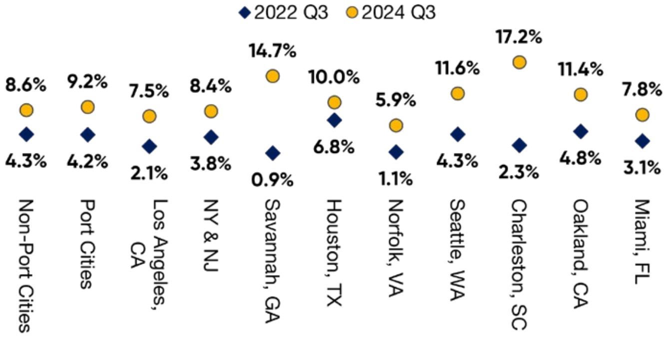
VACANCY

Industrial Vacancy in Port-of-Call Markets Doubles in the Past Two Years

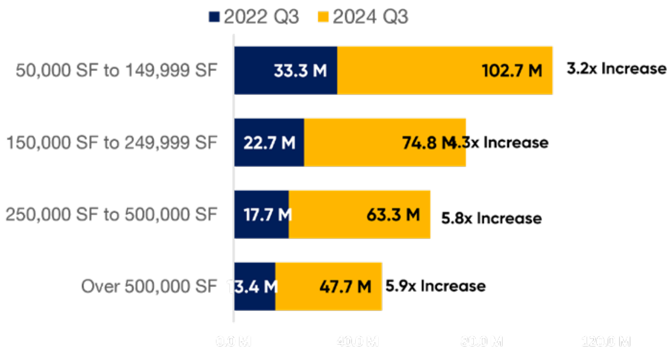
Vacancy rates within the industrial distribution sector have moved from historic lows in the past two years. Every large port market (except Houston) has seen direct vacancy more than doubled in the past 24-months.

Vacancy in the Largest US Port-of-call Markets
Major US Port Industrial Markets



The availability of space has been growing across all size segments. Since the third quarter of 2022, smaller segments grew at a slower pace compared to larger spaces. In particular, availability for spaces over 250,000 square feet increased more than 5.8 times in 2 years.

Availability by Size of Space
Major US Port Industrial Markets
Change from 2022 Q3 to 2024 Q3



Source: CoStar and Cresa, thru Q2 2024

AVAILABILITY

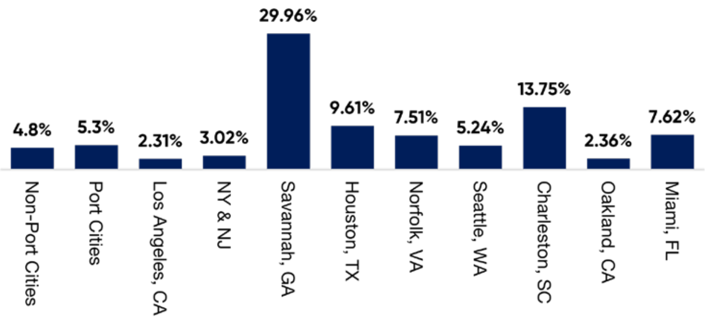
Industrial Availability Drifts Higher

Fast growing port-of-call markets (Savannah and Charleston) have both delivered significant new warehouse/distribution space as a percentage of inventory.

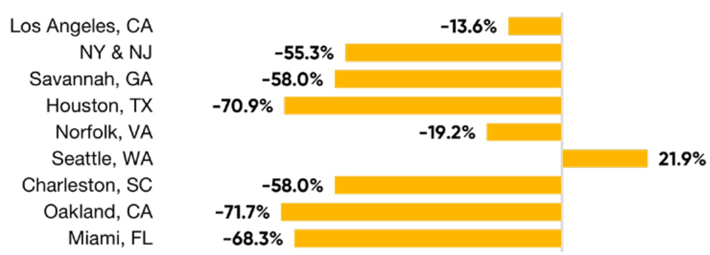
Port-of-call submarkets surrounding deep-water ports in places such as Los Angeles and New York/New Jersey have historically experienced an even lower percentage of under construction as a percentage of inventory because these areas are well-established and there is very limited land for development or is cost prohibitive to the high cost of land.

In the past two years, under construction square footage has dropped dramatically in port-of-call markets. Only Seattle has increased construction in the past two years, but Seattle did not see the significant development during 2021 and 2022 as other port-of-call markets.

Deliveries SF (last 12 months) as Percentage of Current Inventory: Major US Port Industrial Markets



Change in Under Construction SF: Q3 2024 to Q3 2022
Major US Port Industrial Markets



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CONCLUSIONS

CHALLENGES

HIGH DEMAND AND LIMITED SUPPLY

With the growth of e-commerce and global trade, demand for industrial space near ports has surged, but there is limited available land for new developments. This has led to intense competition for space, driving up rents and property values.

INFRASTRUCTURE CONSTRAINTS

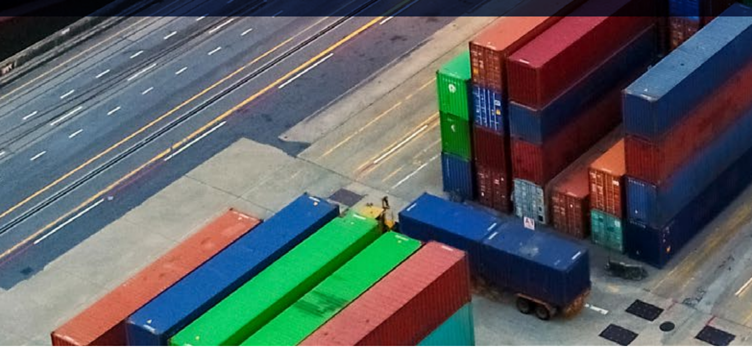
Many port areas face outdated infrastructure, including road, rail, and utility networks, which are unable to keep up with the increased traffic and larger ships. This bottleneck creates inefficiencies in transportation and logistics.

RISING CONSTRUCTION COSTS

The cost of construction materials and labor has increased in recent years, making new developments more expensive. This, combined with high land prices, has made it challenging for developers to achieve profitable returns.

UNCERTAIN ECONOMY

The Fed has announced rate cuts may be forthcoming, relieving some pressure on capital markets, but remain elevated in a post quantitative easing environment. Inflation appears to be stabilized, but employment is slowing and consumer spending is increasingly cautious.



OPPORTUNITIES

INFRASTRUCTURE INVESTMENT

Investments in port infrastructure and modernization can enhance logistics efficiency, creating opportunities for new developments and upgrades in nearby industrial real estate. Bipartisan Infrastructure Law (BIL) signed into law in November 2021 invests more than $17 billion in port infrastructure and waterways.

TECHNOLOGICAL INTEGRATION

Advancements in logistics technology, including automation and smart warehousing, offer opportunities for modernizing industrial facilities and improving operational efficiency.

STRATEGIC LOCATION ADVANTAGE

Ports are key logistical hubs, and proximity to these locations provides a strategic advantage for companies looking to streamline their supply chains and reduce transportation costs.

TENANT FAVORABLE

After several years of robust development, availabilities are steeply increasing as rent growth slows. This provides a window for tenants/occupiers to negotiate deals for more favorable rates and concessions.

LEVERAGE EQUITY

Occupiers with long-term deals signed before the recent lease rate increases may have opportunities to sublease space that may not fit current needs and use the equity and/or leverage to negotiate better terms or find more suitable space for current and future needs.

About the Author

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Craig serves as the Head of Research for Cresa, the leading commercial real estate tenant advisory in the world. The research role provides insight, thought leadership, and trends impacting occupiers of real estate, and supports existing client relationships and business development.

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