



Ports Play East-West Tug of War

Industrial players adjust to the shifting balance of trading power as ports spend billions to expand their facilities. **By Ben Johnson**

Over the next few years, a \$5 billion expansion of the Panama Canal will literally change the direction of trade routes and fuel the growing competition between East and West Coast seaports.

For now, ports on both seaboard are spending billions of dollars to upgrade their facilities in preparation for the battle ahead. Industrial developers are placing their bets on top Eastern port markets.

The battle began last fall when the Panama Canal Authority broke ground on the largest expansion of the 48-mile channel since its completion in 1914, which took 34 years and \$639 million to

build. The new project, to be completed by the waterway's centennial anniversary in 2014, will add a third lane of traffic designed to accommodate today's longer and wider ships, effectively doubling the volume of cargo traversing the Isthmus of Panama each year.

"When the Panama Canal expansion is completed, that removes somewhat of a bottleneck or constraint that is there today," says Anthony Chiarello, senior vice president of customer development at San Francisco-based AMB Property. "There is no doubt the canal expansion will impact trade to the West Coast, and the ports will continue to see a further shift beyond

what has already occurred from West Coast ports to East Coast ports."

For example, container traffic through the ports of Los Angeles and Long Beach — the top two ports in the U.S. — was flat in 2007, while the Port of Savannah saw an increase of 20.6%, leapfrogging over the Ports of Vancouver and Oakland to become fourth largest in the nation, just behind the Port of New York/New Jersey (*see sidebar p. 57*).

Today the Panama Canal serves 144 trade routes around the world, but can only accommodate ships carrying up to 65,000 tons of cargo. Most older container ships were built to "Panamax" specifica-

tions, or the exact maximum size that fits through the canal. Modern container vessels are built to “post-Panamax” standards, capable of carrying 300,000 tons and more, too large for the canal. Half of the new ships on order are too big to travel the canal, so modernization became essential for economic survival.

Adding entry points

Retailers are well aware of the Panama Canal’s potential impact on U.S. trade and are helping to drive port expansions, particularly in the Southeast. They are also continuing to diversify the number and location of ports that ship their goods, rather than rely on a single point of entry and exit.

“More and more companies from a logistics strategy standpoint are looking to diversify their points of entry,” says Mike Peters, first vice president with Denver-based industrial developer ProLogis. “Certainly having an East Coast presence is a logical way to do that.”

For its part, ProLogis has made significant East Coast investments of late. “We built our first building in Norfolk about a year ago, and we’re continuing in the Jacksonville area and continue to look in South Florida as well as even Houston,” says Peters. ProLogis entered the Norfolk market with a 130,800 sq. ft. warehouse building for NYK Logistics in 2007 and plans to build up to 2.5 million sq. ft. of speculative and build-to-suit warehouse space near the port in Jacksonville, Fla.

Many retailers well remember 2002, when 7,000 members of the International Longshoremen and Warehouse Union went on strike and West Coast port owners declared a lockout, effectively shutting down ports for 10 days. That strike cost the U.S. economy about \$16 billion.

“There is no doubt that the port-related stoppage back in 2002 made a lot of importers sit back and plan to make sure that never happens again,” says Chiarello of AMB. He notes that 10 years ago, the largest importers primarily had a single, or at most, two-port strategy. “For the larger [retailers], that is no longer the case. They are looking at four — and sometimes five — ports that they are going into. They have to make sure that their

freight is going to flow to the consumer, so diversification is critical for them.”

Labor disputes are an ongoing issue with West Coast ports. Port clerks threatened strikes in 2004 and 2007. On May 1, West Coast dockworkers staged a strike to protest the war in Iraq. Back in March, security officers threatened a strike at the Port of Portland in Oregon.

At the Port of Houston, Wal-Mart and Home Depot recently opened new distribution centers as part of their diversification strategies. “Both the Panama Canal expansion and the West Coast labor dispute a few years ago are reasons often cited by investors as to why they believe in the Gulf Coast ports and East Coast ports,” says Jeremy Garner, vice president at Trammell Crow Co., which recently built several industrial properties near the Houston port. “A lot of distributors want to be in the heart of the country.”

His point is well taken, considering that the Port of Houston recently doubled its container capacity and is already the No. 1 port in the U.S. in foreign tonnage. Port traffic is up 4.6% year-to-date and up 19% over the past five years.

Industrial developers have taken note, adding 11 million sq. ft. of space in the Southeast Houston submarket in just the past four years. Another 2 million sq. ft. is currently under construction.

Port property challenge

Another important factor in determining

which ports win and lose in the future is land availability, which is often scarce near major ports, according to Peters. The statement begs a good question — how close to the port must a site be to be considered a port-related property?

“That depends,” says Peters. “In L.A., you can be 75 miles away and still be port related because it’s the only place you can find plots of land that are big enough to build the buildings that are needed.

“Then you go to Jacksonville or Norfolk and there is also a shortage of land right there at the port, but you can go out 15 miles and you can find land that would be appropriate for port-related activities.”

Industrial vacancy numbers for the Inland Empire east of downtown Los Angeles are a good example, says Sam Foster, senior vice president of Jones Lang LaSalle in Los Angeles. Properties located closer to the ports are running 6% vacancy rates while buildings farther east are 9% vacant.

At another major West Coast port, the Port of Tacoma in Washington, land availability is an issue. “I get calls from institutional investors all the time looking for properties to buy, but it’s hard to find good land that’s close to the ports,” says Wilma Warshak, senior vice president of Colliers International in Tacoma.

“It used to be people worried about finding land that was close to Seattle. Now they are worried about finding properties



PORT ADVANTAGE: Vacancy rates for properties close to the port are about 6%, while those further away in the Inland Empire average 9% vacant. Some buildings constructed 75 miles from the port are considered port-related, since land is scarce.

with good proximity to the port.”

Trade rides the economic wave

With so much port-related development, is port expansion getting ahead of the potential cargo business? The latest report by the National Retail Federation and Global Insight, which tracks trade for ports in Los Angeles/Long Beach, Oakland, Seattle, Tacoma, New York/New Jersey, Hampton Roads, Charleston, Savannah and Houston, says container traffic will grow steadily this summer but will remain at or below last year’s levels because of the nation’s economic slowdown.

Peters admits that traffic will be down, particularly on the West Coast, but says long-term trends are more important. “The reality is the reason these trade lanes come into being is they are the most practical trade lanes. It’s not like when the market turns up again all of a sudden, a tertiary port is going to pick up all that volume. It’s not. The volume is still going to find the best path to the lowest cost.”

After analyzing potential port investments, developer The Alter Group, based

in Skokie, Ill., recently bought land five minutes from the Port of Jacksonville in Florida, where it intends to build a 1 million sq. ft. industrial facility. Even though shipping giants Mitsui and Hanjin are building huge new facilities that will help the port double its capacity and open up trade with Asia, for Alter senior vice president Todd Yates, the opportunity is about more than just the port.

“We may end up in Charleston, Savannah or Norfolk at some point, but

those are more solely port related,” says Yates. “In Jacksonville the existing base — as well as its proximity to both Atlanta and South Florida — makes you feel better regardless of how the port does.”

That thought could be prescient. As industrial developers, retailers and shippers await the opening of the expanded Panama Canal, they will be eager to monitor the next big distribution challenge. The International Longshoremen and Warehouse Union’s 2002 contract is set



SOUTHERN CARGO: A cargo ship plies the Port of Savannah in southeastern Georgia, which has become the fastest-growing port in the nation. The volume of containers shipped through the port rose more than 20% between 2006 and 2007.

Savannah works Southern charm to grow distribution presence

Seemingly out of nowhere, the Port of Savannah in southeastern Georgia has crept up to claim the title of fourth-largest port in the nation. Since 2000, it has been the fastest-growing U.S. port, with more than 2.6 million TEUs passing through the Port of Savannah in 2007 alone, according to the Georgia Ports Authority. That's a 20.6% increase over 2006 and a new state record. Twenty-foot equivalent units, or TEUs, are a standard measurement of 20-foot by 8-foot containers.

"Investments the State of Georgia and the Authority have made in our facilities are paying huge dividends for our customers," says Doug J. Marchand, the Authority's executive director. "We are setting new records, exceeding service levels and moving forward with an aggressive, \$1.2 billion capital improvement plan to grow our business to new heights and create more jobs and opportunities for the citizens of Georgia."

By 2015, the throughput capacity at the Authority's main Garden City Terminal is projected to be 6.5 million TEUs, more than double the existing capacity.

In March, San Francisco-based AMB Property Corp. delivered the first warehouse for its 249-acre tract in the AMB Morgan Business Park, 10 miles west of the Port of Savannah. AMB plans to build 3.3 million sq. ft. of port-related warehouse space at the project in the next two years. The 347,000 sq. ft. speculative facility, which targets a major retail user, incorporates energy and water efficiency programs as outlined by the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) program. The structure is built to meet the LEED Silver standard.

"We believe strongly in the Savannah market and recent history has shown that the importers as well believe in that market with significant presence from major retailers with large distribution centers," says Anthony Chiarello, senior vice president of customer development at AMB. He expects the port to continue to grow.

AMB conducted a detailed analysis of

other major West Coast and East Coast ports before settling on a major investment in Savannah. The port's proximity to Atlanta, South Florida and the burgeoning U.S. population east of the Mississippi were favorable factors. The port also came out on top in a com-

parison of shipping times and costs for various routes from Asia to the West and East coasts.

"The bottom line is it's competitive both from a transit time perspective," says Chiarello, "as well as a cost perspective."

— Ben Johnson

Trade route marketing over all-water terrain

Asia is the leading importer of goods to the United States, and the ports of Los Angeles and Long Beach handle about 40% of all container cargo traffic into this country. From there, the goods travel on land by truck or train to their final destinations.

On paper, this water/land intermodal system appears efficient in terms of both cost and time for goods shipped to the Eastern U.S., says Anthony Chiarello, senior vice president of customer development with San Francisco-based AMB Property Corp. The reality is something different, however. He notes that shipping Asian goods to Savannah using an all-water route through the existing, narrow Panama Canal costs slightly less and takes only one-half day longer than shipping through Southern California.

In advance of the Panama Canal expansion, a dozen East Coast and Gulf

Coast ports are in the midst of their own aggressive, \$10.2 billion expansion program. In addition to adding new container facilities and equipment, they are deepening their harbors to accommodate what they hope will be an opening floodgate of new cargo traffic — specifically from Asia — in the years ahead.

To hedge its bets, the Panama Canal Authority is creating alliances with major East Coast ports. In late April, for example, the Virginia Port Authority signed an agreement with the Panama Canal Authority to strengthen an alliance first formed in 2003. The two authorities agree to share information about shipping and port trends to help them better align their services to shippers' needs.

“Our partnership with the Virginia Port Authority is more important than ever,” says Panama Canal Authority CEO Alberto Alemán Zubieta. “As we embark

PORT EXPANSION FRENZY

East Coast and Gulf Coast ports are rushing ahead with more than \$10 billion in new development ahead of the Panama Canal expansion in 2014.

Virginia Port Authority	\$701 million
Savannah & Charleston	\$500 million
Charleston	\$857 million
Savannah	\$100 million
Wilmington	\$143 million
Jacksonville	\$200 million
Port Everglades	\$572 million
Miami	\$254.5 million
Houston	\$4.6 billion
Gulfport	\$300 million
Mobile	\$300 million
Tampa	\$1.6 billion
Total	\$10.2 billion

Source: 2020 Master Plan:
Charting the Future of the Port of New Orleans

on the next phases of the expansion project, data sharing and market studies exchange will continue to be essential elements of our collaboration. As the only U.S. East Coast port with the existing capability to handle post-Panamax vessels, the Port of Virginia is prepared for the waterway's expansion.”

Score one for Virginia, but nearly all East Coast ports are waging a pitched battle for business. The Port of Houston, for example, is the world's 10th largest port and ranks 2nd in the nation for total cargo tonnage. It also handles nearly 70% of the containerized cargo market in the Gulf of Mexico. Located eight miles south of downtown, the port is making \$450 million in capital improvements and is opening a new, \$90 million cruise terminal later this year.

In March, the Port of New Orleans unveiled a master plan to develop \$1.14 billion of port projects by the year 2020, with \$574 million of those slated for construction from 2008 to 2012.

“Ports that expand now will be positioned to capture additional market share when the canal is finished,” says Sean Connaughton, administrator of the U.S. Marine Administration.

— Ben Johnson

