

U.S. Port City Industrial Markets

Not All Markets are Created Equal

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U.S. Port City Industrial Markets

Six Key Takeaways

1. **International containerized trade was further concentrated into the top 10 U.S. port markets.** The market share of the top 10 U.S. maritime container ports steadily increased from 2001 to 2008, rising from 89.2 percent in 2001 to 91.6 percent in 2008.
2. **As trade grew, industrial space in port markets grew, too.** From 2001 to its peak in 2007, containerized trade volumes increased by almost 60 percent. At the same time, occupied industrial space in port-serving regions increased by roughly 20 percent. Port markets and inland port markets were rapidly developed to handle the increase in port activity.
3. **Occupied industrial space grew faster in port markets** than in the nation as a whole for the years 2001 to 2007.
4. **Not all port markets are equal.** Since the peak of containerized trade in 2007, port volume nationwide has shrunk by 15 percent. However, there has been significant variation in the volume of change among ports.
 - Industrial markets located near major ports, such as those in Atlanta and Charlotte, have been the least affected by the recession. Meanwhile, the port city of Houston—with increased export activity—is one of the country's strongest industrial markets.
 - Import-driven ports, like those serving Los Angeles, New York and Seattle, have had the greatest trade losses.
5. **Industrial space give-backs were much worse in port markets than the national average.** Net absorption for port-serving regions, especially those ports that handle imports, has been strongly negative since shortly after the start of the recession. The magnitude of space give-backs in those regions is several times the national average.
6. **Prospects for import growth will depend on changing patterns of consumer behavior.** A return to the robust port growth that was seen from 2001 to 2006 appears unlikely in the short term. Export growth has greater potential as the declining value of the American dollar will likely lead to an increase in exports and an improved trade deficit.

The following report examines the movement of maritime freight handled by the nation's 10 largest container seaports from 2001 to 2009. It takes a look into this eight-year window at the trends of increasing, and now decreasing, containerized trade and at how these trends relate to industrial demand in the nation's top port-serving regions.



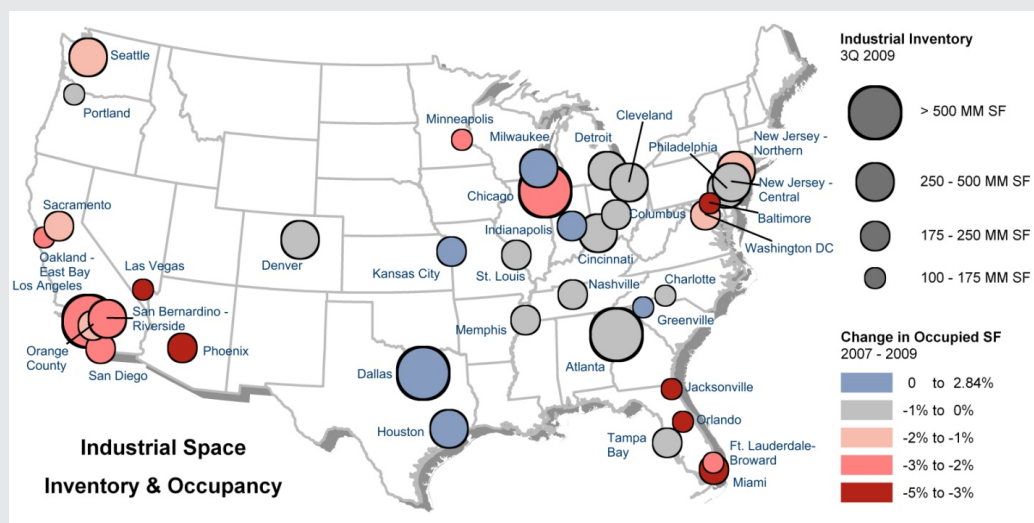


Figure 1: Many of the biggest U.S. port markets saw large declines in industrial occupancy.

Source: Colliers International

A Reversal of Fortune

The U.S. recession—coupled with a global economic slowdown—has turned international trade on its head and seemingly reversed the decades-long trend of growing supply chains and increasing globalization.

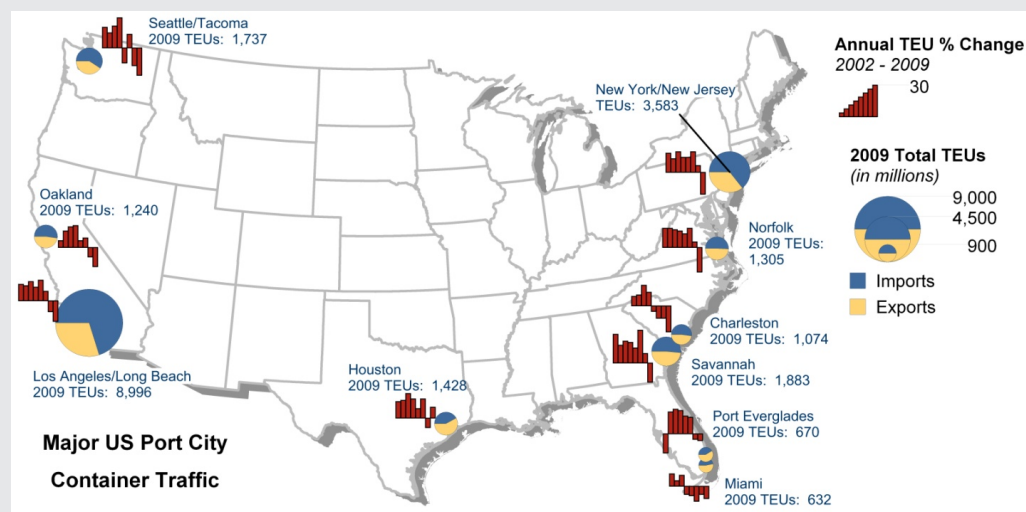


Figure 2: Most high-volume U.S. ports rely heavily on imports and have seen drastic reductions in traffic.

Source: U.S. Department of Transportation, Maritime Administration, U.S. Water Transportation Statistical Snapshot, Port Import Exporting Service (PIERS); data collected from vessel manifests and bills of lading.

Between 2001 and 2008, there was continued container consolidation as the nation's top 10 ports increased their combined market share of cargo from 89.2 percent to 91.6 percent. At its peak in 2007, containerized freight at the nation's top 10 ports had increased roughly 65 percent since 2001, but it has been receding steadily since the current recession began in 2007.

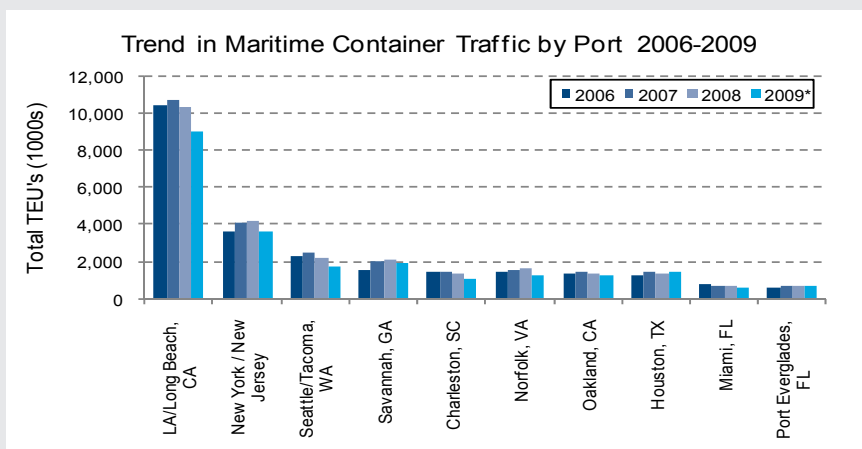


Figure 3

* - 2009 data based on most recent data and author calculations.

Source: U.S. Department of Transportation, Maritime Administration, U.S. Water Transportation Statistical Snapshot.

The year 2009 was an exceptionally challenging one from the standpoint of the nation's leading container ports, as total maritime container traffic continued to decline.

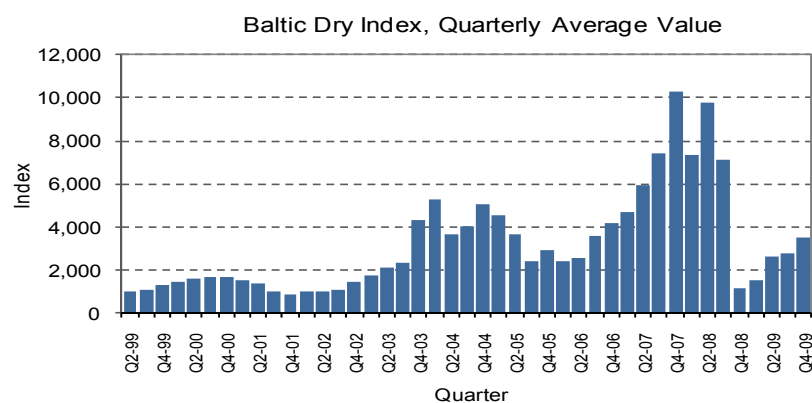


Figure 4

Source: Baltic Exchange

Note: The Baltic Dry Index, a measure of 26 shipping routes, is an index of shipping costs worldwide.

The effects of the U.S. recession led to rapid increases in consumer saving and drastic decreases in consumer spending. As global demand for foreign goods decreased, shipping rates fell abruptly and have only slowly begun to recover.

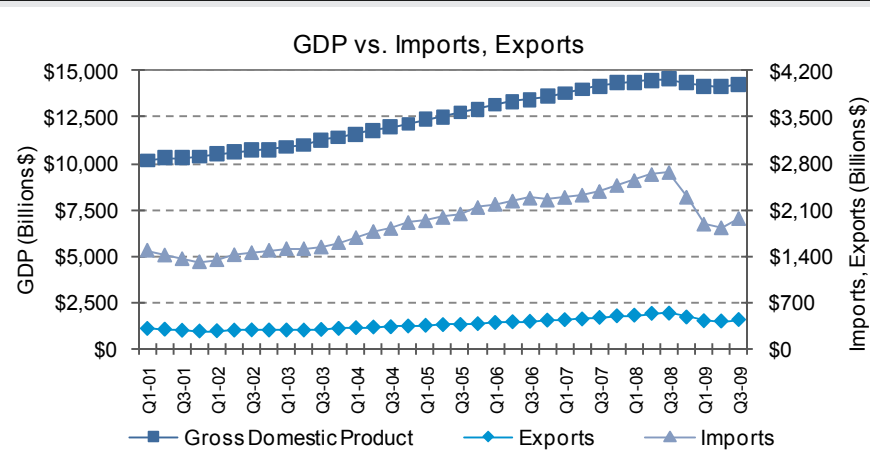


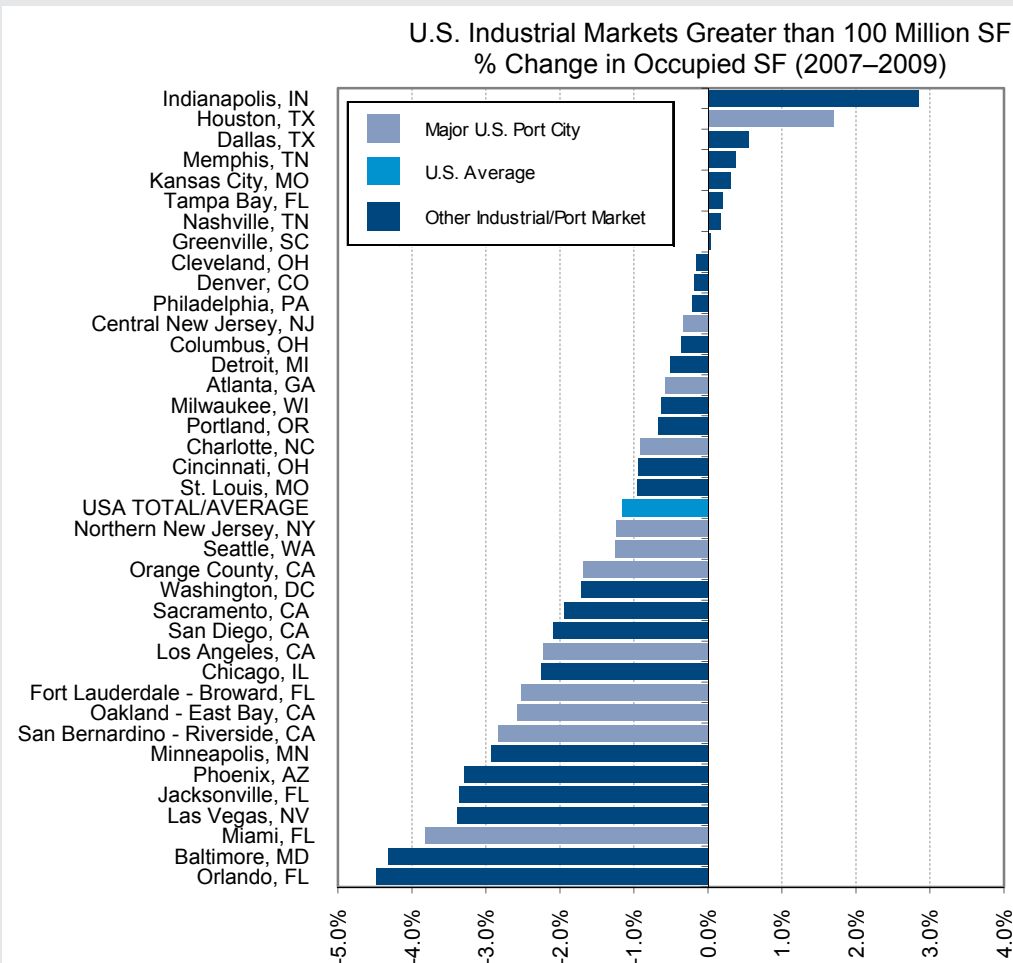
Figure 5

Source: Bureau of Economic Analysis

Exports to foreign countries have remained fairly stable throughout the course of the recession.

Imports, however, began falling rather steadily starting in the middle of 2008 and only started to bottom out in the second quarter of 2009.





Trade's Large Impact on Industrial Demand

Due to the sudden and large drop in port activity, industrial markets located within regions that service sea ports have, on average, recorded losses greater than those of the nation as a whole.

During the past two years, vacancy rates climbed at a faster pace in the port markets relative to the overall industrial market. The only exception was the port city of Houston, where shipping activity--and corresponding industrial occupancy--posted considerable growth. This positive activity is expected to continue.

Figure 6

Note: Houston is the only major port city to report a gain in occupancy.

Source: Colliers International

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Import-Export Percentages Since 2008

Port	% Imports	% Exports
Los Angeles/Long Beach, CA	70.1%	29.9%
New York/New Jersey, NY	64.3%	35.7%
Seattle/Tacoma, WA	59.3%	40.7%
Savannah, GA	51.6%	48.4%
Charleston, SC	52.1%	47.9%
Norfolk, VA	50.9%	49.1%
Oakland, CA	52.3%	47.7%
Houston, TX	42.1%	57.9%
Miami, FL	47.0%	53.0%
Port Everglades, FL	41.6%	58.4%

Figure 7

Source: Port Import Exporting Service (PIERS); data collected from vessel manifests and bills of lading.

One reason Atlanta and Charlotte have shed less industrial space than the national average is that the nearby ports of Charleston and Savannah are more export focused than most other U.S. ports, and have thus been affected to a lesser degree by declining imports.

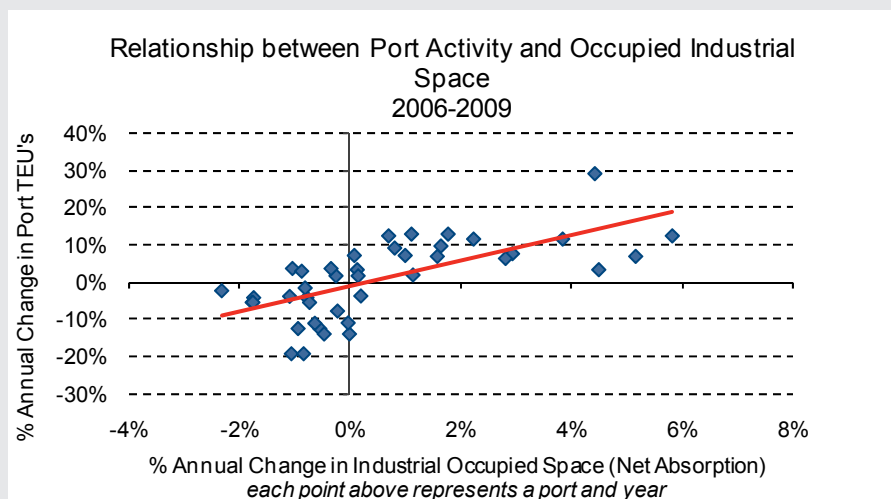


Figure 8: As TEUs change, so does industrial occupancy.

Source: Source: U.S. Department of Transportation, Maritime Administration, Colliers International

There is a clear relationship between port activity and change in industrial demand. A back-of-the-envelope calculation shows that for every 1 percent change in port twenty foot equivalent units (TEUs), a standard measure of containerized trade, industrial demand changes roughly 0.33 percent.

Thus, the 60 percent rise in port activity experienced from 2001 to 2007 led to a 20 percent rise in industrial real estate occupancy in port markets. Likewise, the 15 percent decrease in port activity in recent years saw occupancy decrease by 5 percent in port markets.



Effects of Current and Future Trade

The effects of the global economic slowdown have been severe for world trade. Shifting economic conditions in the United States have led to lowered consumption domestically and also internationally. While consumption domestically is expected to remain low for a number of years, as the American consumer continues to save and pay down debt, this is not the case in every country.

Asian and European economies are expected to return to health in advance of a U.S. recovery, and an expected weaker American dollar bodes well for foreign exports. U.S. ports that are suited for export to these rebounding economies should fare better in terms of demand for industrial real estate.

In the future, exports will play a greater role for port-serving industrial markets as American goods are shipped out of the country and a new path of goods movement is established.

