

# How Hanjin's port woes fit into the Inland's big picture

*Excess capacity on cargo ships and a high demand for industrial real estate makes for challenging times.*



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Last month's [failure of Hanjin Shipping](#) created shock and confusion around the globe that is still being felt.

But it's part of a bigger picture that isn't all gloom, particularly for the Inland Empire.

"There is a lot of change in our industry," said Kevin Turner of Cushman & Wakefield. "Most of it is good. It's positive news. But in the interim, there are some growing pains."

Turner, who is based in Irvine, is leader of a group within the global real estate services firm researching ports and intermodal practices.

The group recently produced a report, "Ship - Shore - To Your Front Door," that asserts "the goods distribution industry is in a state of controlled disruption."

Key factors include:

- ❑ Excess capacity on ocean carrier lines, driving down the cost of shipping, which helps importers but hurts companies such as Hanjin.
- ❑ A boom in industrial real estate driven by e-commerce. Its seemingly insatiable hunger for storage space has led to the annual construction of 20 million square feet of warehouses, distribution centers and fulfillment centers in the Inland Empire.

**The stranding of Hanjin container ships in Southern California waters brings to mind the 2014-2015 gridlock at the twin ports of Los Angeles and Long Beach that stalled the flow of goods to the Inland Empire.**

**Reasons for that gridlock included labor unrest and a shortage of chassis for truckers to haul away the cargo. Those issues are being addressed, Turner said in a phone interview that took place before the Hanjin collapse.**

**"There's a lot of infrastructure improvement being made to alleviate some of the supply chain bottleneck that we are experiencing with continued growth in imported, containerized volume."**

**The issue of freight rates is more structural. According to Turner, transpacific ocean carriers need to make \$1,100 per twenty-foot-equivalent unit (TEU), the standard measure of the industry.**

**"The average for the last 20 months has been in the low \$800 range," he said in an email. "Excess capacity with Ocean Carrier global fleets and decreased demand for containerized goods has created this situation and only will get worse if U.S. economy fails to gain momentum after the peak season shipping season ends in 60 days."**

**"Hanjin competitors have been waiting for this as it will likely allow them to raise their rates."**

**The trucking industry- big in the Inland Empire- is also being squeezed, according to the report.**

New truck orders were down 5.8 percent year over year in June, a four-year low. Surface freight shipments were down 5.8 percent year over year in May. And lower diesel prices are cutting into the surcharges among the nation's leading less-than-truckload (LTL) companies.

E-commerce, however, is creating opportunities for LTL carriers, who serve multiple customers.

"Let's say ... you and I have this really cool couch that we made, so we would have a less-than full load driver come and pick up half a trailer load, take it to their distribution center, sort it into different regions, and that truck would go out with probably 25 other manufacturers that are going to deliver to either a sorting center or it could be actually the last mile front-door delivery," Turner said.

Last-mile deliveries of big objects such as furniture and appliances are the fastest-growing segment, according to the report, because "these over-dimensional products bypass parcel networks."

Despite the enlargement of the Panama Canal and upgrades to East Coast ports, Southern California isn't likely to lose its edge in importing because it is the "hands-down leader in transit times ... 12 days over the water" from Asia, Turner said.

"If you land-bridge to the Midwest, a couple of days on the dock, you've got a 10-day advantage landing your product on the West Coast at the Port of L.A. and Long Beach versus going through the Panama Canal and into Savannah or New York."

In addition to higher freight rates, Turner foresees higher rent for warehouses as available space gets used up.

"Let me just underscore, we have the best operating history nationally for industrial Class A modern logistics space that we've ever seen," he said. "So the question always is how much runway do we have left. What inning of the game are we in?"

"Real estate is not a stick-and-ball sport, but that's the analogy that folks want to make."

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