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ELD rule pressuring tertiary port warehousing markets

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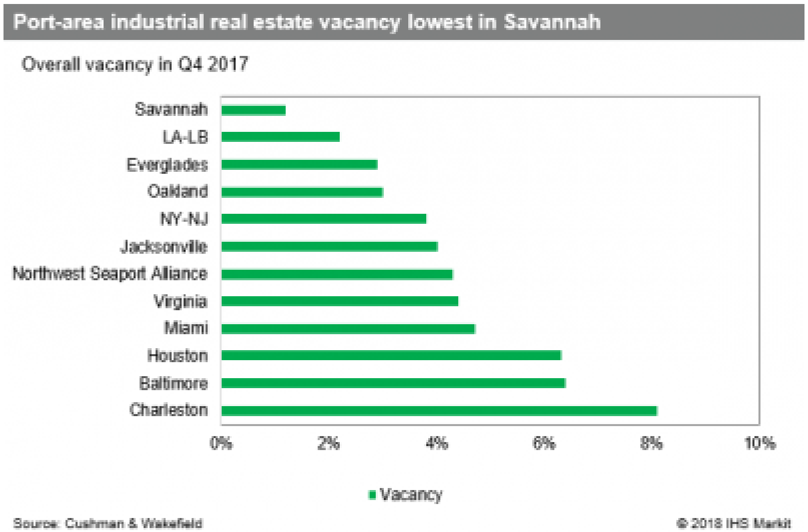
US imports “are a huge driver of demand for industrial real estate,” according to Cushman & Wakefield. (Above: the Port of Los Angeles.) Photo credit: Shutterstock.

Land valuations and rental rates for US industrial real estate will escalate in seaport cities and at major inland distribution hubs, but rents in tertiary markets 200 to 300 miles from ports could drop due to a shortage of truck capacity and drivers.

US imports “are a huge driver of demand for industrial real estate,” said Kevin Turner, executive director in Southern California at Cushman & Wakefield, which analyzed fourth quarter 2017 demand for warehouse and distribution space near 13 leading container ports. The analysis found that the port regions accounted for 28 percent of net absorption. The average industrial vacancy rate in these locations was 3.5 percent, compared to 5.2 percent for all US industrial property. Industrial real estate rental rates can be tracked on JOC.com’s Market Data Hub.



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While record-low vacancy numbers for many industrial real estate locations, and especially seaport-specific markets, may appear to be healthy, "there's something else going on," Turner said. He is telling his beneficial cargo owner (BCO) clients the strong growth in seaport markets, and key rail-served inland hubs such as Chicago and Dallas, is attracting truck capacity because drivers have higher earning power in those markets.

Drivers are less interested in the mid-range tertiary markets such as Phoenix or Las Vegas because port and road congestion, and now the federal mandate for electronic logging devices, are limiting the distances truckers can drive each day. The safety-driven electronic logging device (ELD) requirement is making it next to impossible for drivers to fudge on their hours of service as some allegedly used to do on their paper logs. Also, the further the distance driven, the greater the likelihood that a layover will be needed.

As a result, truck drivers, many of whom are owner-operators, are more interested in servicing distribution warehouses in locations such as Southern California's Inland Empire or Central New Jersey and the Lehigh Valley transloading facilities that service the Port of New York-New Jersey than in longer hauls to secondary and tertiary markets. "It is even more critical now to have transloading facilities near ports," Turner said.

Fred Johring, president of Golden State Express and chairman of the Harbor Trucking Association in Southern California, said that as he tries to maintain capacity while the driver shortage is worsening, drivers ask him two questions. "How much do you pay?" and "Can you keep me busy?" The same situation is playing out at other major seaports as well.

Cushman & Wakefield's analysis of the top 13 US seaports confirms that imports drive demand for warehouse and distribution space. The industrial vacancy rates in the fourth quarter of 2017 were: Houston, 6.3 percent; Savannah, 1.2 percent; Los Angeles-Long Beach (four-county region) 2.2 percent; Jacksonville, 4 percent; Charleston, 8.1 percent; Norfolk, 4.4 percent; New York-New Jersey (including Lehigh Valley), 3.8 percent; Port Everglades, 2.9 percent; Miami, 4.7 percent; Seattle-Tacoma, 4.3 percent and Baltimore, 6.4 percent.

As truck rates increase at least 5 to 7 percent this year, Turner said BCOs are focusing more than ever on optimizing their supply chain by taking space at transloading facilities close to seaports. As a result, BCOs are paying higher rental rates for transloading and distribution space in seaport cities. He cautions, however, that rental rates vary significantly due to other factors as well such as local real estate costs. Therefore, a port such as Savannah, which was among the fastest-growing US seaports last year, has an average industrial rental rate of $4.62 per square foot, whereas the average rental rates in Oakland are $10.43 per square foot, in Los Angeles-Long Beach $9.60, and Seattle-Tacoma $8.95, even though imports at those ports did not grow as much as they did in Houston, Savannah and Charleston.

However, the point is that since the ELD requirement took effect in late December, BCOs in most of the major seaport regions will experience increased rental rates, in some cases “exponential” increases because demand for close-in warehouse space will go up, and those regions will experience a growing demand for truckers which will result in increased driver wages and benefits. Increased warehouse rental costs and transportation costs will force BCOs to optimize their supply chains by locating close to both the ports handling their imports and the consumer markets they serve in the urban cores. “They can’t put the whole cost on the consumer,” he said.

Generally, the push to get closer to ports and large rail hubs could have the opposite effect on those markets that are more than 100 miles from the ports, Turner said. Industrial rental rates in the secondary and tertiary markets could experience downward pressure, and those markets may see a decrease in truck capacity as drivers gravitate toward higher-paying work with more turns per day in the seaport regions. Other industry executives note, however, that each market has its own dynamics, and the secondary and tertiary markets will make adjustments to fill their needs.

However, virtually every industrial real estate market in the US has been enjoying lower vacancy rates, strong demand for warehouse space and rising rental rates as the post-2008-09 recession recovery appears ready to extend for yet another year. Turner noted that retail sales, which increased 4.5 percent last year, are forecast to increase 2.9 percent in 2018. New-home construction is at a 10-year high, gross domestic product is forecast to increase about 2.5 percent this year, unemployment is at an eight-year low and the cost of money is still relatively inexpensive.

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