

Tide is Turning for New York City/New Jersey Industrial Property Market

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Full text:

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The seven-page report, which deftly analyzes how maritime freight volumes impact occupancy rates in the nation's ten largest container seaports, demonstrates how the global recession has vastly reconfigured U.S. shipping and occupancy patterns between 2001 and 2009. Yet some positive trends are beginning to take hold. Among the report's key findings:

- On a local basis, roughly 35.7 percent of all port activity through New York City/New Jersey seaports in 2008 was driven by out-bound shipping (meaning exports) and this percentage appears to be climbing.
- Ports that were chiefly dependent on imports have sustained the greatest vacancy declines - - but those markets that have focused on exports have been the least affected thanks to foreign nations' steady demand for US goods
- Between 2001 and 2007, containerized trade volumes increased by nearly 60% as the global economic boom triggered a wave of spending on US and foreign goods
- Demand for industrial space in these markets followed suit, driving occupancy up by roughly 20 percent during that period - - faster than any other US commercial real estate asset class
- Since the volume of containerized shipping peaked in 2007, average industrial vacancy within these ports actually dropped by 15 percent

“This report demonstrates how the global economy continues to shape demand for industrial space in and around large port markets such as ours,” said Joseph Caridi, executive vice president for FirstService Williams, which will become the Tri-State region hub of Colliers International by the end of April. “As global economic growth continues to gain momentum in coming months and years, we expect to see demand for industrial space follow suit throughout our region.”

Caridi also sees the growth of export demand as an “antidote” against additional occupancy declines in the New York/New Jersey industrial markets.

A critical part of this antidote will come in the form of labor growth. To that end, the U.S. government will be instrumental in sparking future export growth. In his State of the Union Address, President Obama proposed a program that would double the total volume of American exports in the next five years. Another critical part of the initiative is the creation of roughly two million new jobs, many of which would ultimately fill vacant seaport buildings.

“If these new jobs materialize, they will fuel demand for as much as 500 million square feet of industrial space within our largest port markets. Exports currently account for almost 12 percent of GDP, and that’s up from just 4 percent of GDP in 1970. The reason behind this growth is globalization, which will continue to buoy our largest seaports into the future,” added Caridi.

In 2009, the total volume of maritime container traffic flowing through the ten largest US ports continued to decline. But the outlook appears to have brightened over the past few months. First, the closely-watched Baltic Dry Index - - a key benchmark which tracks activity within the world’s 26 most active shipping lanes - - began ticking upwards in early 2009. While this bellwether indicates that global shipping rates are in fact strengthening, they are nowhere close to the peak rates achieved at the end of 2007. Secondly, and equally as important, the dollar volume of exported goods shipped from the largest U.S. ports showed virtually no declines during the past eight years.

Due to consolidation, a smaller number of seaports will ultimately benefit. The market share of the top ten U.S. seaports (based on the volume of maritime containers passing into and from each market) jumped from 89.2 percent in 2001 to 91.6 percent in 2008 - - demonstrating that foreign container ships visited fewer U.S. ports during that seven year period.

The impact was hardly uniform among these markets. The ports with a greater focus on exports such as Houston and Fort Lauderdale sustained less of a slowdown due to the weak dollar that has fueled demand for American goods. Conversely, import-driven ports like Seattle and New York have been challenged to fill much of their industrial space.

Industrial markets in major port cities are still in the early stages of a recovery. As a sub-set of all U.S. industrial markets, those located in or around major seaports have on average sustained occupancy declines that are greater than the nation as a whole. Of the eight U.S. industrial markets that eked out marginal occupancy



increases between 2007 and 2009, only one of these markets was a major U.S. port (Houston). On the bottom of the red column, which lists industrial markets that posted occupancy declines during that period, the last two markets were both ports (Baltimore and Orlando).

“Our Port City Industrial Markets White Paper brings together more than just industry-leading research and analysis,” said Dylan Taylor, president and CEO of FirstService Real Estate Advisors, who will become Chief Executive Officer of Colliers International, USA. “This report also represents the collaborative efforts of our industrial professionals. Working with many of the world’s largest industrial landlords and tenants, they bring an entirely new dimension to our research. We’re thrilled to have the platform to produce analysis like this and we are actively working on new White Papers. Stay tuned for more evidence of our thought leadership.”