

Supply Chain Bottlenecks Give Rise to New Cargo Hubs

CoStar Analysis: Demand for Gulf/East Coast Port and Air Cargo Warehouses on the Rise

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CoStar Advisory Services
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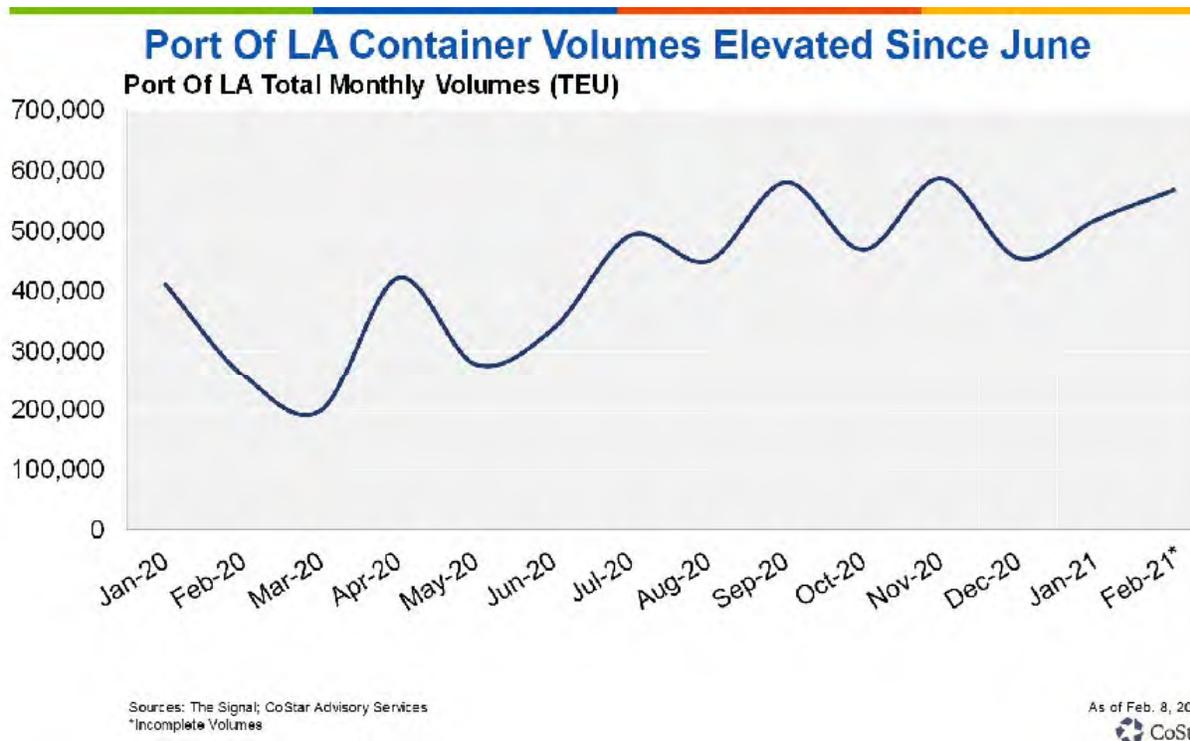


The surge in imports that began before the holiday season has continued unabated, resulting in bottlenecks across the ports of Los Angeles and Long Beach (LA-LB). Strong import demand, driven by inventory re-stocking coupled with pandemic-related workforce challenges, has created capacity issues at these ports. Carriers and retailers are now considering shifting to other ports and modes of transport to help ease supply chain backlogs, fueling the rise of Gulf and East coast ports as well as major air cargo operations.

More than 600 longshore workers at the port of LA-LB have contracted COVID-19 since December, according to the Pacific Maritime Association (PMA). In addition, skilled equipment operators remain in short supply, resulting in vessel delays with ship anchorage times now averaging around one week at the port complex, according to The Signal. The slower-than-normal movement of containers from ships to trucks is also resulting in significantly higher truck turn times, which, in January, averaged around 88 minutes, much higher than the 58 minutes average in June before the import surge, according to the Harbor Trucking Association.

As of Jan. 29, 37 ships remained at anchor awaiting berths in LA-LB ports as vessel backlogs continued to mount, according to the German international shipping and container transportation company, Hapag-Lloyd. The carrier has also announced structural blank sailings to Southern California, as it diverts ships to the ports of Oakland and Seattle-Tacoma to help ease congestion in LA-LB. However, the re-routing of ships is also increasing congestion in these other ports, with the port of Oakland recently starting to see ships anchor in greater numbers. As of Jan. 29, 11 ships remained anchored in the San Francisco Bay area, as all ship berths were

occupied.

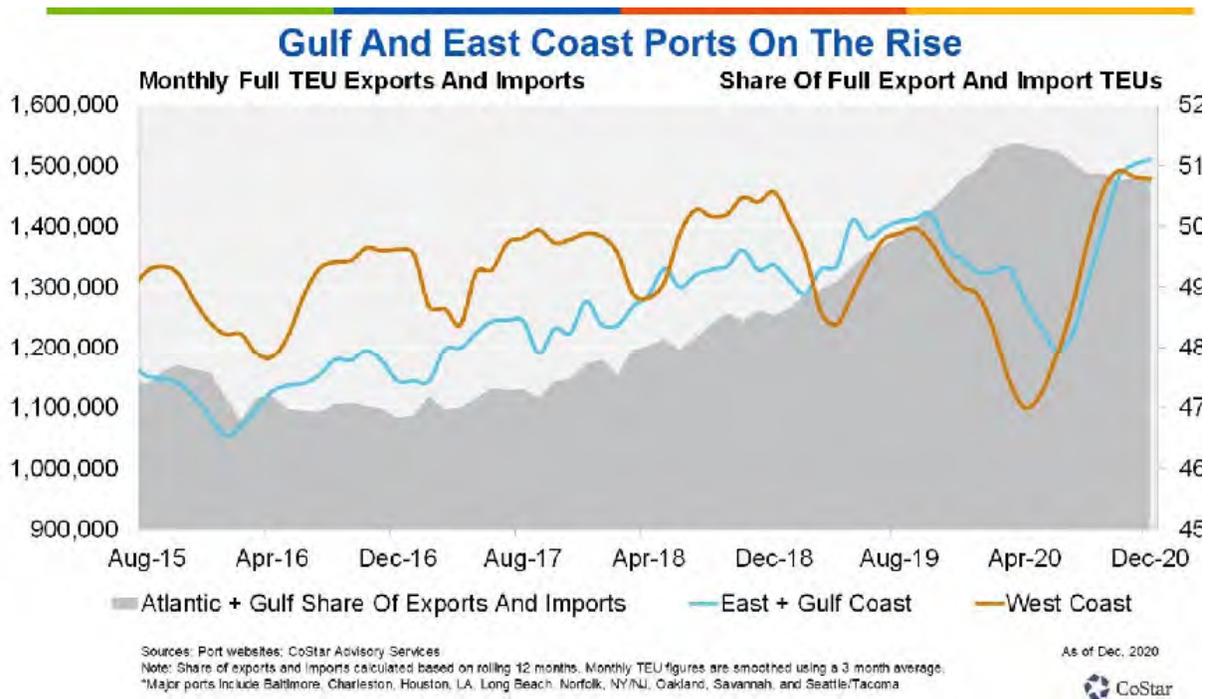


Infrastructure capacity and labor issues are not new to the ports of LA-LB. In 2004, labor shortages at Union Pacific Railroad led to 65 ships awaiting berths at these ports, and in 2014-15, the West Coast port labor crisis also led to backlogs, with 28 ships at anchor. The ports of LA-LB also face capacity constraints, despite having a combined 13 container terminals, these two ports had the highest pre-COVID ship dwell times out of all ports in the country, at 62 and 57 hours, respectively. The average for all U.S. ports is 28 hours.

While these West Coast ports are not expected to see their backlogs improve much until later in the spring, Gulf and East coast ports continue to experience a rise in volume, with little to no resulting congestion. With these ports expecting continued volume growth over the next few years, they are now looking to fast-track plans to widen channels and expand terminals to service greater quantities of vessels as well as larger ones.

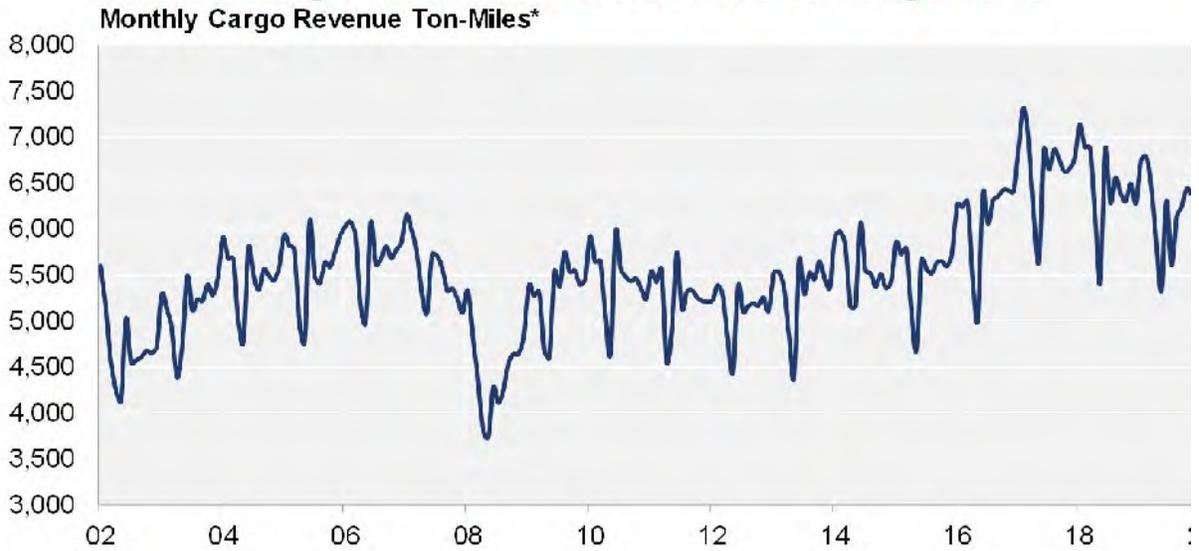
In December, Congress approved funding to widen and deepen the Houston Ship

Channel, a project which may reach completion in the next four to five years. This would allow the port to handle larger TEU vessels while congestion is eased for non-container loads. The port of New Orleans, which is also seeing a rise in imports, is moving ahead with plans to purchase over 1,000 acres outside the city for development of a container terminal that could handle around 2 million TEUs per year by 2027, according to JOC. The ports of Mobile, Virginia and Tampa Bay are also investing in expansion plans over the next few years, as they seek to add container capacity to meet growing demand.



This mismatch between capacity and demand will continue to place pressure on international and domestic shippers to look for other means of shipment. One of the side effects of this trend has been that the demand for air freight, despite the mode of transport's higher costs, has remained strong throughout the pandemic. Air freight allows for greater flexibility and faster shipment than other modes of transport. In fact, in a recent announcement to customers, Peloton, the exercise equipment company, cited surging demand and West Coast port delays as explanations behind their decision to invest over \$100 million in air and expedited ocean-based delivery over the next six months.

Air Cargo Revenue On The Rise Through 2020



Sources: Bureau of Transportation Statistics; CoStar Advisory Services
*A cargo revenue ton-mile is one ton of revenue cargo (freight or mail) carried for one mile.

As of Oct. 2020
CoStar

Air cargo demand was already rising pre-pandemic, with Amazon investing heavily in its air fleet by leasing over 60 planes in 2016. Now, Amazon is becoming an even more serious player in the air cargo sector through purchasing its own planes. The company is expected to own or lease over 200 planes within the next decade, according to a study by DePaul University. The rise in air cargo demand is proliferating across U.S. cargo airports as well, with the top 10 U.S. airports making up a smaller share of landed air cargo over the past few years, despite increasing demand.

Air Cargo Demand Rising And Proliferating Pre-pandemic



Sources: FAA, CoStar Advisory Services

As of 2018
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We expect that the top U.S. airports in terms of cargo demand will rise in significance across supply chains, with warehouses located near these top airports benefiting substantially. Warehouse areas around the Phoenix, Portland, Houston, Seattle and Dallas airports, are becoming increasingly attractive. While established hubs like Memphis, Louisville, Chicago, Miami, Los Angeles and Cincinnati remain relevant areas in terms of air cargo expansions.

Top 20 Air Cargo Airports Generally Seeing A Rise In Demand

| Cargo Rank | City | Aiport Code | State | Airport Name | Cargo Landed 2018 (Lbs) | Change I Cargo Since 201 |
|------------------|--------------|-------------|-------|--|-------------------------|--------------------------|
| 1 | Memphis | MEM | TN | Memphis International | 24,432,753,510 | 25 |
| 2 | Anchorage | ANC | AK | Ted Stevens Anchorage International | 18,413,943,946 | -5 |
| 3 | Louisville | SDF | KY | Louisville International-Standiford Field | 14,643,310,355 | 38 |
| 4 | Chicago | ORD | IL | Chicago O'Hare International | 6,697,030,276 | 37 |
| 5 | Miami | MIA | FL | Miami International | 8,398,363,905 | 22 |
| 6 | Los Angeles | LAX | CA | Los Angeles International | 7,316,551,753 | 85 |
| 7 | Cincinnati | CVG | KY | Cincinnati/Northern Kentucky International | 7,031,104,454 | 189 |
| 8 | Indianapolis | IND | IN | Indianapolis International | 5,279,561,245 | 12 |
| 9 | Fort Worth | DFW | TX | Dallas-Fort Worth International | 4,303,624,237 | 42 |
| 10 | Ontario | ONT | CA | Ontario International | 4,198,558,563 | 87 |
| 11 | Oakland | OAK | CA | Metropolitan Oakland International | 3,625,227,180 | 37 |
| 12 | Newark | EWR | NJ | Newark Liberty International | 2,905,386,775 | -2 |
| 13 | New York | JFK | NY | John F Kennedy International | 3,278,081,740 | -16 |
| 14 | Atlanta | ATL | GA | Hartsfield - Jackson Atlanta International | 2,992,813,629 | 14 |
| 15 | Honolulu | HNL | HI | Daniel K Inouye International | 2,746,649,400 | 29 |
| 16 | Seattle | SEA | WA | Seattle-Tacoma International | 2,465,313,646 | 77 |
| 17 | Philadelphia | PHL | PA | Philadelphia International | 2,450,565,660 | 23 |
| 18 | Phoenix | PHX | AZ | Phoenix Sky Harbor International | 1,913,451,630 | 58 |
| 19 | Houston | IAH | TX | George Bush Intercontinental/Houston | 2,197,967,253 | 44 |
| 20 | Portland | PDX | OR | Portland International | 1,688,704,279 | 59 |
| USA Total | | | | | 174,290,979,099 | 29 |

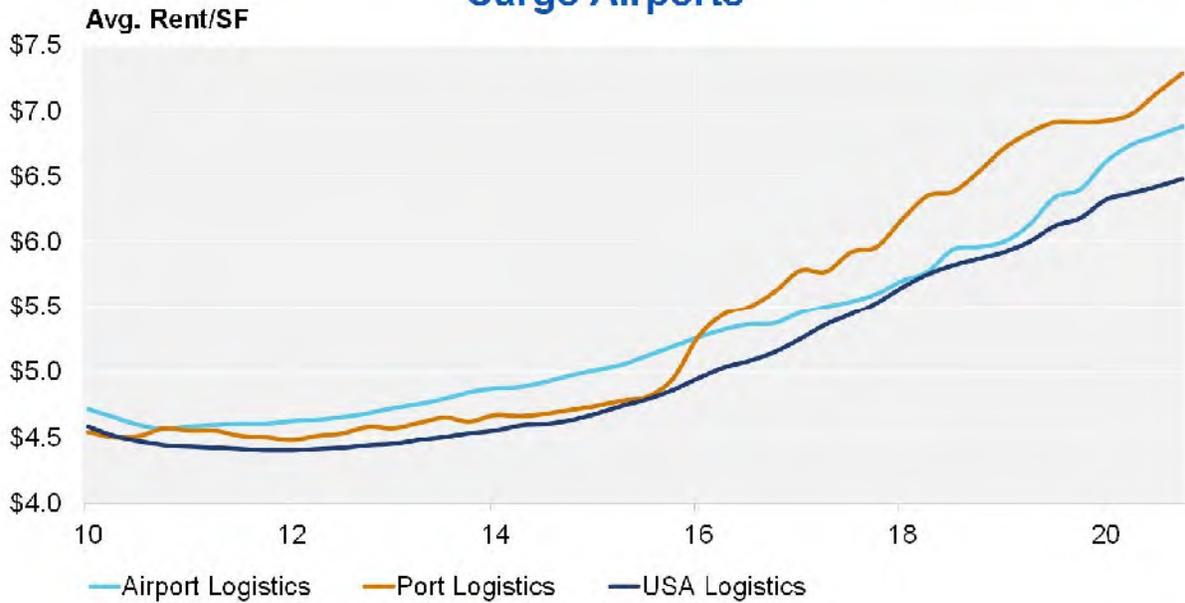
Sources: FAA; CoStar Advisory Services

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As is the case for all real estate, the classic mantra of location, location, location also applies to warehouses. Properties located closer to established and expanding container ports and air-cargo airports are experiencing significant demand growth, which is not expected to abate anytime soon. The average vacancy rate for logistics assets that are greater than 10,000 square feet and are within a five-mile radius of major seaports and air cargo airports remains tight, at around 6%. Rent trends also demonstrate the outperformance of these infrastructure-centric warehouses, with rent premiums continuing to expand for port and airport logistics warehouses throughout 2020. As the economy recovers, e-commerce growth and import trends will continue to reinforce the importance of proximity to supply-chain infrastructure, making airport and port logistics some of the most attractive industrial real estate around.

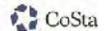
Rent Premiums Rising For Warehouses Near Seaports And Air Cargo Airports



Source: CoStar Advisory Services

Note: Analysis limited to logistics properties with more than 10K SF. Port and Airport Logistics defined as properties within 5 mile radius from respective cargo infrastructure

As of 20Q4



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