Ports Anchor Industrial Market

Many of AMB Property Corp.'s industrial assets are about as anchored to the ports of Los Angeles and Long Beach as a seafaring metaphor can be. And Kim Snyder, managing director of AMB's southwest region, contends that despite a slowdown at those facilities, they will continue to boost the industrial asset class in the long run. Snyder talked with *Real Estate Southern California* editor Don Jergler about the industrial market and the twin ports to which the sector is so closely tied.

How have the recent changes to the ports affected AMB's property, the marketplace as a whole and cargo volume?

Kim Snyder: There's a direct relationship between the ports and industrial activity. Long Beach and Los Angeles really offer the shortest sea route to Asia, and well established and relatively fast transit times for distributing goods.

The ports have always been a real strong industrial driver for business in Southern California. There's been substantial growth over the past 10 years in local and regional markets that are readily reachable in a day to the ports of Long Beach and Los Angeles, which has added to volume of container activity and distribution of those containers to warehouses within the region. It's been a great run. But the disadvantage is the ports are in the State of California, where there is a tremendous amount of legislation, and campaigning to green up the ports and to take pressure off the infrastructure. The completion of the Alameda Corridor helped that.

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AMB Property Corp.

Will going green hinder port and industrial growth?

Snyder: It's just sort of the natural order of things. One must support sustainability efforts, not only from a social standpoint, but a from pragmatic standpoint to provide sustainable solutions to your customer base—from enabling people to park a bicycle on an industrial site to having energy-efficient light bulbs. We do sell these features to our customers. T5 lighting, for example, gives the occupant a much lower operating cost.

Do you think infrastructure growth and improvements need to be given higher priority in Southern California?

Snyder: I do. There needs to be more initiatives like the port's day-pass initiative, which gives incentives to the trucking community to pick up at night. Also the Alameda corridor is still not at full utilization, so there is more capacity there. But the tricky part is getting enough rail infrastructure passed through the EIR process, which is challenging. There is a lot of environmental impact from adding to the rail and putting down rail lines. BNSF has an initiative to grow their capacity, which has been struggling with the entitlements and EIR process at the at-grade crossings. If funds were available, you would like to do grade separation instead of a freight train slowing down at a major thoroughfare, but those grade separations can run anywhere between $15 million and $25 million a piece. There have been so many taxes and fees established at the ports of Los Angeles and Long Beach in the past few years it has created some marketing weakness for the ports. We've seen a denigration of volume. Specifically, import volumes are way down, 9% to 10% year-to-date. We're really in an adjustment window right now. It will come back out this way gradually, but for the moment there is clearly a huge change in the numbers.

What are the opportunities for industrial right now?

Snyder: The Inland Empire is definitely having a major adjustment. The extreme eastern end of the region—if you want to go all the way out to Banning and Beaumont—have speculative products up to 500,000 square feet, which were put there to have an economic advantage over, say, Ontario. That tide has now pulled back, perhaps as far as the Ontario airport, primarily because land availability and its cheaper prices. You also had the rapid development factor—25 million square feet to 35 million square feet of product built in a very short of time. During times of a robust cycle it would have been absorbed in maybe two or three years. But as of last year, after having five- to 10 500,000-square-foot units absorbed on an annual basis, it has dwindled to three to four of those absorbed in a year. That's really been the struggle on the eastern side of the area.

How high will vacancy go?

Snyder: For Southern California, it could go into the low double digits, but I don't really see that. The 8% range is my personal forecast. The difference between the early '90s and today is there isn't a huge supply overhang.—SOCAL