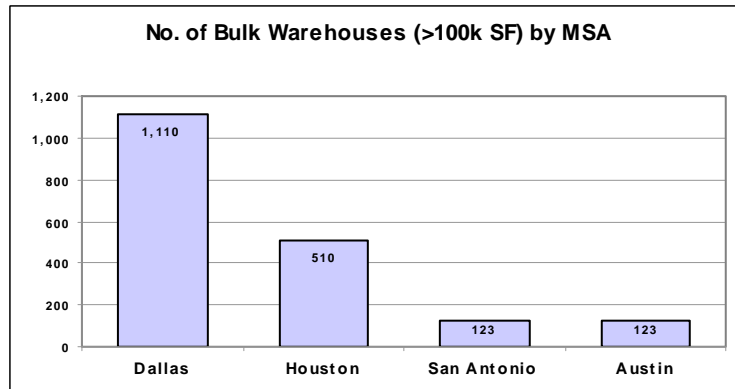


Panama Canal Expansion: Texas Caught in the Middle

In two short years, the economic geography of North America will undergo a dramatic shift. An expanded Panama Canal will allow for cargo capacity to almost triple on the 'New Panamax' vessels. With only a two-thirds increase in vessel operating costs, significant economies of scale will be available, making gulf and east coast ports more competitive with the west coast.

The stakeholders are primarily interested in warehousing, distribution, and freight consolidation/de-consolidation because those activities generate employment and drive leasing activity. At present, nearly all containers destined for the American interior arriving at west coast ports are trans-loaded onto rail cars and sent east. The efficiency of this operation generates little employment or demand for warehouse space at the port of entry. By contrast, because it is a rail hub straddling the vast western expanses and densely populated eastern states, Dallas/FW is perfectly situated as a regional distribution hub. This is reflected by the relative number of bulk warehouse facilities over 100,000 square feet in each of the major cities of Texas.



Source: O'Connor & Associates

To identify what is on the table, it's best that we first establish what isn't. The big prize from the Panama Canal expansion is cargo that is destined for the Chicago market and the Great Lakes region. These destinations will be better served by east coast ports that are already deep enough (50 feet) to accommodate the largest 'New Panamax' container vessels, that are closer to the Chicago market, and where railroads have recently made enormous capital improvements to the intermodal infrastructure. Destinations east of the Mississippi River are already well-served; likewise, West Texas and the panhandle region are well-served by west coast ports.

Caught in the middle, the Port of Houston's primary market area for imported containerized cargo from Asia most likely includes the most populated part of Texas, the border with Mexico, and much of Louisiana, Oklahoma, and Arkansas.

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Ship Designation	Capacity	Year	Length	Beam	Draft
Panamax	3,000-5,000 TEU	1980	965 ft	106 ft	39.5 ft
New Panamax	10,000-13,000 TEU	2009	1,200 ft	160 ft	49.9 ft



The above map demarcates where the cost of shipping a container through the Panama Canal equates with the cost of shipment through ports on the west coast. The dollar figures indicated are the costs to import (top) or export (bottom) a shipping container at the Port of Houston.



The Port of Houston may become a reliable low-cost alternative to Dallas, however Dallas retains a key nine-day advantage for rushed shipments, perishable cargo, and cargo that has a high value relative to volume and weight

Sources: Drewry Container Benchmarks, WorleyParsons, Princeton Consultants, Inc., The Van Horne Institute

Next Month

O'Connor & Associates is expanding and enhancing coverage of their property and sales data base in Austin, Dallas, San Antonio and Houston.

TEXAS REAL ESTATE UPDATE

Panama Canal Expansion

Opportunities, Caveats for Houston

The market area that is served through Houston's port is the most economically resilient and fastest growing region of the United States, and likewise serves a burgeoning border area. Even prior to the completion of the Panama Canal expansion, the volume of Asiatic imports has been on the rise, and that growth should accelerate. Importantly, nearly all of the containers from Asia are trucked to their final destinations (within about 450 miles), a process that is labor-intensive as compared to dockside intermodal rail service and that is conducive to consolidation/deconsolidation of cargo at local facilities. Improvements are presently under way at the existing container terminals at Barbour's Cut and Bayport that will expand annual capacity to 4.0 million TEUs, allowing for a near-doubling of current container handling volumes within 13 to 15 years.

There are caveats. Houston's channels remain too shallow (at 45 feet) to safely accommodate a fully loaded 'New Panamax' vessel or even the older and smaller 'Post Panamax' and 'Super Post Panamax' vessels. The maximum capacity per vessel is therefore only 8,000 TEUs, partially loaded. In order to lighten the load, a container ship from Asia will typically call a deeper port (often Manzanillo, Mexico) before calling Houston and will offload cargo at that port that would be discretionary between it and Houston. The vessel then transits the Panama Canal and has to pay a fee on its capacity, whether utilized or not. Unused capacity translates to higher operating costs per TEU disembarked at Houston than would be the case if the vessel were fully loaded.

None of the other gulf coast ports are any better off; nearly all of the federal subsidies were allocated to the east coast. It is good that Houston does not have to fend off the nearest domestic competitors for its market share, however it will need to remain a low-cost alternative to Dallas.

A Respite for Dallas — *But Not to be Taken for Granted*

Dallas is the 800-pound gorilla when it comes to regional distribution and warehousing in Texas and the south central U. S. region. The agglomeration of facilities and a serviceable legacy infrastructure ensure that enormous volumes of container traffic must be routed there from Los Angeles/Long Beach on a daily basis; the economies of scale by sea and over land result in highly competitive rates, likely with some room for further negotiation if necessary. Well-organized industrial parks developed around air and rail intermodal facilities keep the costs of drayage to large distribution centers reasonably affordable, and local truck traffic off the highways as much as possible.

Houston's Bold Challenge

To assume its rightful place in the pantheon of global mega-ports and to challenge Dallas as a regional distribution hub, a new container terminal must be constructed in the Galveston Bay region. The new terminal must have access to channels that are sufficiently wide and dredged to a depth of 50 feet. The Port of Texas City (a private entity) already has a permit from the Corps of Engineers to dredge to 50 feet and a lease agreement in place with SSA Marine (also a private entity) to develop such a terminal at Shoal Point, but they would first need a commitment from a shipping line. The Ports of Houston and Galveston have jointly considered developing a new terminal on Pelican Island that would handle 3.4 million TEUs annually, but further planning will have to wait for the Port of Houston to clear some political hurdles involving its governance and administration.

Meanwhile, the Houston region must get out ahead of traffic congestion issues to ensure reliable freight movement. This means lobbying for the extension of Interstate 69 and the Grand Parkway, and making improvements to State Highway 146 and other freeways. To capture intermodal freight that currently originates on the west coast or from Mexico en route to Dallas, Houston must also address its rail congestion with grade separations, new bypass routes, or double-tracked lines. Another critical (but controversial) infrastructure project is the 'Ike Dike', which would protect all of Houston's port infrastructure from the disruptive effects of storm surge. This infrastructure would be reassuring to shippers. The winners will provide *low cost, reliability, and maximize their immediacy*.

— About Sage Group —

We are a group of appraisal professionals working together to provide a single source of information and analysis for commercial real estate professionals across the country. Our team is managed by Patrick O'Connor, MAI; John Fisher, CCRA, LEED AP; W. F. "Buddy" Trotter, Jr., MAI and Mike Miller, MAI. We have professionals in Houston, Dallas, San Antonio and Austin.