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Warehouses Unlikely to See Windfall from Panama Canal Widening

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Industrial developers are saying "thanks for nothing" as the much-hyped post-Panamax ships are expected to have little effect on demand for South Florida warehouse space.

A new truck tunnel, major dredging and billions of dollars in capital investments at PortMiami and Port Everglades braced the region for an influx of new trade from the widened Panama Canal beginning this fall.

Analysts agree the new infrastructure will likely keep freight trade bustling at PortMiami, the nearest U.S. seaport to Panama. But they aren't expecting a windfall for area warehouses.

"It's very difficult to say," CBRE Inc. vice chairman Christian Lee said. "Cargo that comes in and out of the airport tends to stick around longer than cargo that comes through the ports."

If Miami remains largely a transshipment point, it would mean a brisk turnaround for incoming cargo with quick reload onto departing ships with little need for local storage.

"The widening of the Panama Canal is going to be positive for industrial real estate and will encourage industrial developers to build new, modern and efficient warehouses," State Street Realty president George Pino said. "But I'm not one of those guys who thinks it's going to be a game changer."

Neither is Steven McCraney, president and CEO of West Palm Beach-based industrial developer McCraney Property Co. McCraney is building 3.1 million square feet of warehouse and flex space in Florida, but not because he's gearing up for dramatic spikes in business from post-Panamax freight.

What he's banking on instead is retail trends and the continuing rise of e-commerce.

"It doesn't mean that we don't think the Panama Canal will increase trade among Florida ports," said McCraney, who visited Panama last year to meet with international colleagues and government officials. "But we keep hearing a lot of discussion about Charleston, South Carolina, having a significant increase. The Panamanian government felt Mobile, Alabama, out to construction sites. Any increased activity only helps, and most industrial developers in South Florida have been putting up buildings just as fast as they possibly can."

'Slim Pickings'

For Miami-based Gibson Development Partners, which specializes in office and industrial space, its latest outlays have all been for large-scale distribution centers.

One project is slated to bring twin industrial Class A buildings with 602,657 square feet to the Centergate at Gratigny business park in Hialeah by end of this year. The Transal Logistics Center in Doral added 218,000 square feet last year.

"We have multiple institutional partners who are pushing to get into this market on the industrial side," vice president of development David Blount said. "That money really fueled our industrial development."

As did the rent revenue.

Gibson completed the Transal center in January 2014, projecting gross rents of $9.75 to $10 per square foot. By September, it had fully leased the space to tenants paying $10.25 to $10.30.

"It got some of the highest rents in the county," Blount said.

The average asking rate in Miami-Dade is $8.30 per square foot and $9.91 in the Doral-Airport West submarket, according to CBRE.

"We've got several deals out there that we've been chasing and looking at over the last couple months. From that standpoint it's active and very competitive. The analogy we use is, 'You've got the fish on the line, you've got to reel it in.' Things can change quickly, but from what we're seeing the demand is there into 2017, hopefully 2018."

But strong demand isn't good news for everyone, especially in a market driven by tenants with similar profiles — companies seeking small to medium spaces.

"For anybody looking for 35,000 square feet or less, it's slim pickings," said Gabriel Garcia-Menocal, NAI Global's executive director of industrial brokerage services. "There's not a whole lot, and tenants are surprised."

The new inventory didn't help. It created a landlord's market as renters flocked to Class A space with wider columns, trailer storage, wider parking and taller ceilings that allow them to vertically stack more inventory without paying for extra square feet.

In mid-March, Garcia-Menocal began scouting Miami-Dade properties with a client looking to leave a decades-old building for a new-generation property with 32-foot clearance and gross rent around $9 per square foot.

"These customers are not unsophisticated logistics folks. They've thought things out from a branch level all the way up the chain," he said. "These guys know exactly what they're doing. They're not going to make a five-year commitment to a space they couldn't use after a year."

and Galveston, Texas, would benefit based on population density that can be hit within an eight- to 10-hour logistics driving distance. It's all about reachability."

Florida's biggest reach is for last-mile distributors that deliver to consumers and other end users. Its warehouses won't see an influx from new freight, but analysts predict single-digit vacancy rates.

"The industrial sector has been on a tear in the last three of four years coming out of the recession, even beyond any impact the Panama Canal might have," CBRE first vice president Tom O'Loughlin said.

Local Strengths

In Miami-Dade County, tenants leased millions of square feet in 2015 including 341,000 in Medley and 677,000 square feet in the Doral-Airport West submarket during the fourth quarter, bringing net absorption for 2015 to 3.2 million square feet.

Diversified Aero Services signed a more than eight-year lease valued at about $15 million in Doral. Online retail giant Amazon also boosted occupancy by signing its second Miami-Dade lease in two years. It cinched 117,235 square feet at the South Florida Logistics Center in Miami, adding to the 335,841 square feet it already controlled in Doral.

The uptick in leasing prompted developers to build more warehouse space last year than any time since the recession. It brought 15 projects with about 1.8 million square feet to market, with another 342,000 square feet under construction in Medley.

In Broward County, specialty business-to-business suppliers, pharmaceutical companies, suppliers of durable and nondurable goods, equipment dealers and medical companies helped drive the sector. Tenants pushed net absorption to 1.5 million square feet in a market where rents increased 3.4 percent over the previous year.

"The market's good right now," Transwestern Development Co. senior managing director Walter Byrd said. "We're going to continue to see sustained moderate growth for new industrial space."

That belief led Transwestern's sister company, Ridge Development, to break ground last month on a 182,057-square-foot distribution center built on speculation in Medley with no prearranged buyer in mind.

"Decisions aren't being made based on potential demand from the canal," Byrd said. "They're being made on what we think are the strengths of the South Florida market."

Those strengths lie largely in construction-related businesses, like Amarr Garage Doors and Xeleum Lighting. The two companies leased 40,500 square feet last year in Palm Beach County, where JLL analysts predict improved rail service and inland ports would drive warehouse demand from building suppliers.

"Regardless of what they're building, all those supplies travel through industrial real estate," CBRE's O'Loughlin said. "All the hardware, lighting fixtures, all the products that go into apartment or residential single-family homes all travel through warehouses before they go