

Port Expansion Project Poised To Add Fuel To Mid-Atlantic's Industrial Demand

March 3, 2022 | Jacob Wallace, Bisnow Washington, D.C. (<https://www.bisnow.com/author/jacob-wallace-533636>) (<mailto:jacob.wallace@bisnow.com>)

An infrastructure project worth nearly half a billion dollars is transforming industrial real estate near the Port of Baltimore (<https://www.bisnow.com/tags/port-of-baltimore>), and it has the potential to remake the mid-Atlantic region's industrial market once it's completed.

The Howard Street Tunnel Project, a public-private partnership undertaken by rail operator CSX with state and federal agencies, will modify existing freight rail lines in Baltimore to allow double-stacked trains to pass throughout the city for the first time, opening up the port to new markets and dramatically expanding its capacity to do business with the world.

"It is a project of national significance, I would even venture international significance, for what it will open up once it is completed in 2025," William Doyle, executive director of the Maryland Port Administration, said at *Bisnow's* 2022 Mid-Atlantic Industrial Summit last week.



When completed, the port's latest improvements are expected to add pressure to an industrial real estate market that's already seeing unprecedented rent increases and adding demand to a market sector that is snapping up land throughout the Washington-Baltimore corridor.

The Port of Baltimore has spent the past several years repositioning itself to take advantage of the rise in the global distribution business, increasing its capacity 144% between 2010 and 2020.

Once it's completed, the Howard Street Tunnel project could bring an additional 160,000 containers to the port annually, roughly a quarter of the business the port did in 2020, the Port Administration projects (<https://mpa.maryland.gov/Press%20Releases/090921.pdf>).

The tunnel project, which will coincide with bridge and other track improvements, allows CSX to move double-stacked trains up and down the entire Eastern Seaboard and could open up the Port of Baltimore to markets like Chicago and the Ohio Valley.

Doyle said the Port of Baltimore is the least-congested port in the country right now, and he's seeing more business divert from overburdened locales like Los Angeles and Long Beach (<https://www.bisnow.com/tags/long-beach>) as a result.

"We win by taking their business," Doyle said. "I just tell them 'I'm helping you, I'm just trying to ease your congestion, bring it over here.'"

In anticipation of the port's growing business, Doyle said the port authority was renovating its entire terminal and densifying, in part to take advantage of the high demand for warehouse space.

"If you take a look at the Port of Baltimore, and what's going on over the past decade, it's the amount of warehousing, whether that's distribution, sorting, fulfillment centers," Doyle said. "That is what is the driving force in a port like Baltimore."

Tradepoint Atlantic (<https://www.bisnow.com/tags/tradepoint-atlantic>) is taking advantage of that increasing demand. An early benefactor of the port's positioning as a global hub, the logistics park created by Hilco Global (<https://www.bisnow.com/tags/hilco-global>) at the former Bethlehem Steel (<https://www.bisnow.com/tags/bethlehem-steel>) factory site has attracted major tenants like Amazon (<https://www.bisnow.com/tags/amazon>) and Under Armour (<https://www.bisnow.com/tags/under-armour>), which operate a combined 2.5M SF there.

Tradepoint, which announced (<https://www.bizjournals.com/baltimore/news/2022/02/23/east-coast-warehouse-distribution-build-tradepoint.html>) it was building a build-to-suit 175K SF cold storage facility last week, has transformed disused heavy industrial shells and uncovered lots into an increasing amount of modern warehouse space for a variety of industrial applications, taking advantage of what Managing Director Kerry Doyle described as one of the "highest rent growth, lowest vacancy, hottest markets, lowest cap-rate markets in the country."



“The logistical attributes of the Port of Baltimore relative to some of these other congested ports, we said all of these things create a pretty interesting mix to place a serious amount of capital and do a long-term redevelopment,” Doyle said. “And so, unfortunately, seven and a half years later, the rest of the market’s figured that out.”

The redevelopment has in turn created pressure on other kinds of industrial real estate, 1788 Holdings (<https://www.bisnow.com/tags/1788-holdings>) principal Larry Goodwin (<https://www.bisnow.com/tags/larry-goodwin>) said.

“There’s so much development going on ... really displacing a lot of Baltimore’s outdoor storage area,” Goodwin said. “Look no further than Tradepoint Atlantic. That was a lot of outside storage at one point. Now it’s vertical. Where do those tenants go?”

Goodwin said tenants are “absolutely frantic” to find good deals near the port, with urban infill sites in particular changing hands at a premium.

Across the Baltimore market, net asking rates went up by nearly 8% in 2021, according to Cushman & Wakefield. That occurs as vacancy rates in the city of Baltimore hit 0.6%, and sat at 3.4% in the market as a whole.

Danielle Schline (<https://www.bisnow.com/tags/danielle-schline>), vice president and market officer at Prologis (<https://www.bisnow.com/tags/prologis>), said she was seeing the crunch in available space herself, as the race for e-commerce distribution space continues to apply pressure to the market. It has changed strategies away from a centralized distribution model, as well.

“We have customers in our portfolio that need to deliver to the end user within five hours,” Schline said. “So you know, they are setting up multiple locations in infill locations instead of just having one distribution center.”

That pressure is rippling outward to other markets in the mid-Atlantic. Schline said there's currently 400M SF of industrial space under development nationwide, 70% of which is pre-leased, which she said is creating historically low vacancy rates.

That's especially true in mid-Atlantic markets, where Schline said many prime locations are seeing vacancy rates below 2%.

"We've never seen activity like this," Schline said.

Zoning laws and traditional market forces that have long kept the industrial market in the D.C. region tight continue to factor into the business. The D.C. metro area industrial market saw its highest direct asking rates on record in 2021 as rents grew 14.3% year-over-year, according to JLL (<https://www.us.jll.com/en/trends-and-insights/research/industrial-market-statistics-trends/washington-dc>).



Marcus Daniels, vice president and associate broker at NAI Michael (<https://www.bisnow.com/tags/nai-michael>), said the industrial market was competitive right now throughout Maryland, and he's engaging with landowners and land use and zoning attorneys to try and uncover off-market opportunities for tenants looking for space.

"There just is not enough, particularly around the D.C. metro area, industrial dirt that is available on the market or property available for them to be able to use," Daniels said.

Daniels said that pressure has led to some exciting deals and new projects in Prince George's County (<https://www.bisnow.com/tags/prince-george's-county>), including the 3M SF National Capital Business Park, for which NAI Michael manages the leasing (<https://www.bisnow.com/washington-dc/news/industrial/construction-on-500m-prince-georges-county-industrial-project-slated-to-begin-in-q2-107031>).

Many of the panelists who spoke at *Bisnow's* expressed optimism about the future of the market sector and said the mid-Atlantic region has struck a good balance between supply and demand as the industry surges.

And there's the possibility that federal dollars will continue to fuel that growth over the next five years, said Debo Ayeni, director of research and data analytics at Alex. Brown Realty (<https://www.bisnow.com/tags/alex.-brown-realty>).

He said last year's infrastructure bill will fuel investment in everything from data centers to public transportation, which will in turn create new communities that need to be served by industrial space.

"Just the sheer amount of dollars that are included in the infrastructure bill and all the different components it hits are expected to create opportunities not only in the industrial sector, not only in the mid-Atlantic, but really nationwide," Ayeni said.

Contact Jacob Wallace at jacob.wallace@bisnow.com (<mailto:jacob.wallace@bisnow.com>)

See Also: 'Cyberattacks Will Spill Over': As Russia Brings War To Europe, U.S. Data Centers Brace For Impacts (</national/news/data-center/russias-invasion-of-ukraine-may-impact-data-centers-112120>)

Related Topics: Prologis (<https://www.bisnow.com/tags/prologis>), 1788 Holdings (<https://www.bisnow.com/tags/1788-holdings>), NAI Global (<https://www.bisnow.com/tags/nai-global>), Danielle Schline (<https://www.bisnow.com/tags/danielle-schline>), Larry Goodwin (<https://www.bisnow.com/tags/larry-goodwin>), port of baltimore (<https://www.bisnow.com/tags/port-of-baltimore>), tradepoint atlantic (<https://www.bisnow.com/tags/tradepoint-atlantic>), Kerry Doyle (<https://www.bisnow.com/tags/kerry-doyle>), Marcus Daniels (<https://www.bisnow.com/tags/marcus-daniels>)