FEATURED ARTICLE

THE TRILLION-DOLLAR GAP

HOW UNDERFUNDED INFRASTRUCTURE IS HURTING OUR ECONOMY

BY AMANDA MARSH

Every four years, the American Society of Civil Engineers (ASCE) publishes a report card grading the current state of national infrastructure categories on a scale of A through F.

"Since 1998, America's infrastructure has earned persistent D averages, and the failure to close the investment gap with needed maintenance and improvements has continued," the organization lamented in its May report, Failure to Act: Closing the Infrastructure Investment Gap for America's Economic Future.

What we can expect: Increased travel times due to poor roads and airports; unreliable utilities due to an aging electric grid and inadequate water distribution; and higher costs for businesses to manufacture and distribute goods and provide services. By 2025, ASCE estimates this will have a $3.9 trillion impact on the U.S. GDP, $7 trillion in lost business sales, 2.5 million lost jobs, and cost families $3,400 per year in disposable income, it predicts.

The investment gaps through 2025 are staggering: $1.1 trillion for surface transportation, $105 billion for water and wastewater, $177 billion for electricity, $42 billion for aviation, and $15 billion for ports and inland waterways. But the ASCE contends that if Americans invest $3 more per day per family until 2025, the costly investment gap can be eliminated.

The Impact on Commercial Real Estate

The Trump Administration's $1 trillion infrastructure pledge is a drop in the bucket, said Tranwestern director of GIS/location intelligence research Brian Landes.

"There's great appetite among American citizens for both local and state government to fund such projects," he said, noting this past November, 45 large cities proposed major infrastructure measures, and 33 of them passed. Now is the time to embark on such projects, he continued, as we're in a low interest rate environment allowing us to borrow money more affordably for municipal projects.

One of the greatest current examples of neglected infrastructure is New York. After a series of derailments and costly delays impacting Amtrak, New Jersey Transit, and Long Island Rail Road at New York Penn Station, Amtrak—which owns the major transportation hub—accelerated infrastructure improvements to the station's tracks and switches this summer, resulting in the frustration of cancelled trains and service changes for all three railroads.

The station already faces capacity issues that could be partly resolved by the Gateway Project, a $20 billion effort between Amtrak, the U.S. Department of Transportation, the Port Authority of New York and New Jersey, and the States of New York and New Jersey to increase capacity and alleviate congestion between Newark and New York City.

"The project intends to double the number of passenger trains that can travel into New York, which will make life easier for commuters and further boost demand for office space," Landes said. "Office tenants will face less pressure to move operations to the suburbs, while the suburbs and multifamily properties in transit-oriented areas will see greater demand from shorter reverse commute times."

The Gateway Project is only one example of how infrastructure can positively impact commercial real estate. He also pointed to efforts in Los Angeles, which has built more mass transit lines than any other city over the past three decades.

"It has always been known as a car-centric city, but it's focused on making the city more accessible to everyone," he said. "It's had a positive effect on the market, decreasing transportation times, commute times, and shipping times."

Another city significantly improving transportation is Denver, whose Regional Transportation District (RTD) FasTracks program will add 122 miles of new light and commuter rail, 18 miles of bus rapid transit, 57 new transit stations and enhanced bus/rail connections. Since 2005, $5.5 billion has been invested or committed; RTD said every $1 invested in transit infrastructure translates into a $4 return over 20 years.

There has already been significant growth in residential development throughout the system, while commercial real estate activity has been more noticeable the past few years, according to RTD senior managing director for transit oriented communities Bill Sirois. In its Southeast Corridor, three quarters of commercial buildings developed over the past decade have been focused around rail, according to consulting studies.

South Florida and Charleston are two other success stories highlighting the impact of infrastructure investment.

Investment in Miami-Dade and Broward County's ports and airports have resulted in Miami International Airport becoming the largest international airport in the U.S. when it comes to cargo volume—the ninth in the entire world—and it is the second largest international passenger hub with 109 airlines serving 154 cities with non-stop flights, according to Infinity Commercial Real Estate Partner John Dohm, SIOR, CCIM, Pa.

Additionally, Fort Lauderdale-Hollywood International Airport is in the top five fastest-growing airports in the U.S., while PortMiami and Port Everglades handles one million TEUs [a twenty-foot equivalent unit, used to measure container ship capacity] annually, he said.

The region has also benefited from the $5 billion expansion of the Panama Canal, with PortMiami being one of the few post-Panamax East Coast ports that can currently handle the largest ships, further opening shipping to and from the U.S. and South American Countries.

"Suddenly, Miami and the surrounding area are the jumping points to South America and no longer the 'end of the line' they once were," Dohm said, noting this activity has created desire among institutional developers to be in Miami-Dade and Broward counties.

Charleston has also invested significant capital in preparing for a post-Panamax boom.

International intermodal rail lifts have already increased 170 percent since 2011, with 23 percent of the Port of Charleston's containerized import and export volume moving by rail. This growth has led to the success of Inland Port Greer, which handled a record 103,639 rail lifts last year.

This growth spurred construction of a second inland port facility, called Inland Port Dillon, which will be served by CSX (Inland Port Greer was only served by Norfolk Southern). The project's initial phase, delivering in 2018, is expected to handle at least 45,000 containers annually and handle the growing intermodal cargo volume between the Port of Charleston and markets throughout the Carolinas, Northeast, and Midwest.

Also under construction is the Hugh K. Leatherman, Sr. Terminal, a new, 280-acre terminal which, at build out, will boost capacity in the port by a full 50 percent, according to the South Carolina Ports Authority. Construction is currently underway, and the anticipated opening date of the terminal's 171-acre first phase is planned for 2019. Nearby Port of Savannah is also expanding its intermodal transfer container facilities.

"Charleston and Savannah's efforts, combined with the efforts of other East Coast ports—including New York and New Jersey, Norfolk, and Baltimore, as well as the raising of the Bayonne Bridge to 215 feet above water—will attract more larger vessels to the East Coast," said Hagood Morrison, SIOR, MBA, Colliers International senior vice president and principal.

But there is still much to be addressed on the industrial side, according to JLL managing director, economist, and chief strategist Dr. Walter Kemmsies.

For one, the amount of GDP the country has spent on infrastructure has stepped down since the 1960s and 1970s, with more of the money supporting imports than exports. More robust roadways and waterways are needed to support the heavier exports, and the U.S. has generally neglected the Mississippi River System, he said, which has negatively impacted these exports.

And as e-commerce has taken off, ports need more inventory and more space—which is why intermodal facilities are critical.

"If you look around cities such as Los Angeles, Seattle, and New York, they're pretty congested," Kemmsies said. "With these primary markets saturated, it makes sense to put intermodal facilities in secondary locations that

The Wando Welch Terminal at Port of Charleston, which will soon benefit from the development of Inland Port Greer and the Hugh K. Leatherman,Sr. Terminal.

can serve larger geographic footprints. Instead of shipping something from the Port of Los Angeles to Chicago, why not ship to Nebraska or Kansas City? It's faster and cheaper."

These facilities also address decreased investment in roadways, which have suffered from funding deficits for the past 10 to 15 years, he added. Roads were not designed for such heavy use, and poor investment, in turn, has impacted the retail sector—consumers now see shopping in stores as expensive, a test of patience and requiring too much endurance.

There's been some talk about public-private partnership to address this lack of investment, he said, but they historically haven't been successful. The problem lies in the lack of enabling legislation from both the state and federal level, he noted.

The Power of Technology

Infrastructure investment less talked about—but critical for commercial real estate—is technology.

"I can talk to a colleague or fellow SIOR member in any state, and he or she might as well be right next to me in Washington, D.C.," said Pete Larson, SIOR, executive vice president at Transwestern, pointing to greater relationship potential, more opportunities, and allowing professionals to accomplish more in less time.

"Like retailers use oceans and highways to ship product and information, our industry does so over the computer and phone," he continued. "We don't even need to have formal introductions to expand our footprint across the country and conduct business. The work we can now do all over the world is fascinating—I've sold properties in places that I've never even stepped foot in."

Technology is also a way to invest in other infrastructure, Kemmsies added. For instance, tech transponders can feed information to a system and adjust traffic patterns if need be, a system already in play on Interstates 5, 105, and 710 in Southern California.

"If traffic starts to clump up, the transponders automatically lower the speed limit, which breaks clumps of traffic up," he said. "Then the average speed goes up, the more traffic can go through, and you have a more productive highway system. However, we're woefully underinvested in technology."

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Infrastructure investment gaps through 2025 are staggering, with a $1.1 trillion underfunding in surface transportation leading the way. Pictured is a traffic jam in Miami.