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TEXAS PORTS INVEST IN INFRASTRUCTURE

From the Louisiana state line to the Mexican border, the volume of business at Texas ports is growing, necessitating greater spending on port infrastructure.

By Taylor Williams



Significant infrastructural developments are underway at the Port of Beaumont, from the deepening of the channels to the expansion of the railyards.

Seaports are often considered the economic engines of the markets they occupy. So when a port is increasing its business and handling more product, that growth is usually accompanied by a spike in industrial development in the surrounding metro areas.

Such is the case in Texas, a state where port activity encompasses more than 1.5 million jobs and \$360 billion in economic impact, according to the Texas Ports Association. The organization also states that the value of product passing through Texas ports currently represents approximately 25 percent of the gross domestic product (GDP) of Texas and 6.4 percent of GDP

for the United States.

Overall volumes of maritime commerce are also on the rise following the completion of the Panama Canal expansion, a \$5.4 billion project that wrapped in 2016. Ships and their cargoes are getting larger while the logistics of distribution are calling for faster delivery. Times are changing, and Texas ports are changing with them.

The passing of the Water Resources and Development Act in 2016 has cleared the way for major improvements and expansion projects to occur on America's rivers and harbors. And while industrial development is on the rise at and around the Ports of Beaumont, Corpus Christi and Brownsville,

see **PORTS** Page 28

STUDENT HOUSING IN SECONDARY MARKETS

With numerous large projects being developed or coming on line in Lubbock and College Station, developers are going after second-tier university towns.

By Taylor Williams

The National Center for Education Statistics (NCES) reports that about 20.4 million students attended American colleges and universities in 2017. That figure represents an increase of 5.1 million students from 2000 and is expected to exceed 22 million by 2023.

As this enrollment growth carries forward, developers of student housing properties have been holding steady volumes of new product on their books. According to CoStar Group, developers have added about

22,000 new units each year since 2010. During that stretch, vacancy for all unit types has not risen above 10 percent and rents have maintained positive growth rates, save for the 12-month period from mid-2013 to mid-2014.

Asking rents for studio and one-bedroom units have appreciated the most during this cycle. This suggests that more graduate students, who are more likely to live alone, are clamoring for student housing residences.

Larger schools often have limited enrollment, forcing graduate students



8FOUR8 Mitchell will be a 687-bed student housing development for the University of Texas at Arlington, one of the fastest-growing schools in the state.

see **STUDENT HOUSING** Page 30

INSIDE THIS ISSUE



Special Section: Economic
Development Spotlight 2018

pages 19-27

Market Highlight: New Office Development,
Strong Retail Occupancy in San Antonio

pages 12-15

InterFace Student Housing
Conference, April 4-6 in Austin

page 7

TEXAS PORTS INVEST IN INFRASTRUCTURE

PORTS from page 1



This image shows an aerial view of Cheniere's liquefied natural gas refinery in Corpus Christi, an industrial facility that spans more than 1,000 acres. The project is a major driver of demand for industrial space among firms that have a hand in its development.

the re-dredging of the channels at all these ports is a more concrete indicator of long-term confidence.

Consequently, the following ports are underway on an array of projects to facilitate the handling of more cargo. From constructing additional docks to expanding rail-served space, the need for greater transit efficiency is driving development at ports from one end of the Gulf Coast to the other.

Beaumont: Energy & Military

The Port of Beaumont is located along Interstate 10, within 100 miles of Houston and Fort Polk, a military base in Louisiana where some 10,000 troops are stationed. The port is also home to the U.S. Army's 842nd Transportation Battalion. Consequently, cargo coming through the Port of Beaumont is relatively balanced between liquid bulk energy product and military goods like tanks, helicopters and other such equipment.

"We pride ourselves on being diversified," says Chris Fisher, director at Port of Beaumont.

"We're planning for significant growth in our liquid bulk and petrochemical industries and recently expanded into ethanol. But our business with the Department of Defense will also remain an important part of the product mix."

Growth is undoubtedly occurring throughout the port. According to information from the Department of Transportation, only the ports of Houston, New York-New Jersey and South Louisiana have handled more annual tonnage than Beaumont over the last several years.

This activity has prompted a channel-dredging project to deepen the waterways from 40 feet to 48 feet — a

20-year undertaking that local sources predict could create as many as 78,000 new jobs. Commercial growth at the port has also generated a slew of new infrastructural projects on port land.

The port's budget for capital improvements in 2018 is approximately \$169 million, according to Fisher. Individual projects include the construction of a new dock facility and grade separation overpass, which are valued at \$79 million and \$10 million, respectively. The Port of Beaumont has also undertaken a \$13 million rail expansion project.

"Rail is a big part of what we do," says Fisher. "About 75 percent of our tonnage is handled by rail and we're serviced by three Class 1 railroads. This expansion project will add a second lead track into the port for our break bulk and military cargo."

Like in most port markets, activity at the Port of Beaumont has driven corporate investment around the waterways. ExxonMobil has committed to expanding its refinery in Beaumont, which spans a 2,400-acre site, and is also looking to open a petrochemicals plant in the area. Oil giant Motiva Enterprises operates one of the largest oil

refineries in the nation in nearby Port Arthur. Beaumont-based Jefferson Energy has also been expanding its facility near the port over the last couple years.

The expansion projects of these firms represent the main demand driver for industrial space in Beaumont, says Lee Wheeler, founder of Beaumont-based brokerage firm Wheeler Commercial.

"Most users in Beaumont's industrial market are local business owners that service the petrochemical and energy companies," says Wheeler. "It's very difficult to find space right now, especially spaces under 5,000 square feet. And new product coming on line is likely to be leased up very quickly."

Wheeler adds that flooding from Hurricane Harvey rendered some of Beaumont's older industrial properties obsolete, spurring some new construction in the process. Rent growth has been slow to rebound since the storm, but the industrial market is unquestionably growing, Wheeler says.

"Beaumont is traditionally a service-type market," he notes. "But these expansion projects represent distribution deals, and it's very possible we could see more of them."

Corpus Christi: Short on Space

As the top exporter of crude oil in the country, the Port of Corpus Christi has an annual impact of about \$20 million on the Texas economy. The port shipped crude to more than 30 different countries in 2017, mostly in large Aframax and Suezmax tankers with capacities for up to 1 million barrels of crude. Supertankers are expected to begin loading U.S. crude at the port in 2018 for export to Asian markets.

With America currently producing a record-level 10 million barrels of oil per day, give or take, and oil export bans no longer in place, the port has experienced a significant uptick in activity. This growth has necessitated deepening the channels from 47 feet to 54 feet.

"We're putting a lot of money into infrastructure, especially new docks and cargo structures," says Jarl Pedersen, the port's chief commercial officer. "Before 2017, we hadn't built a new dock in 30 years. Between that, demolishing old structures and deepening the channels, we're really creating a safe waterway for larger vessels."

Pedersen projects that in 2018 the port will enjoy 15 percent year-over-year growth in terms of cargo handled, much of which will be shipped to its final destination by rail following a \$50 million investment in railyards.

But that spike in port activity is hardly tied to oil alone. Two major projects underway in the Corpus Christi area are contributing significantly to the growth: Cheniere's liquefied natural gas (LNG) refinery and ExxonMobil's polyethylene plant. Combined, these two projects encompass more than 2,300 acres of developable land and \$25 billion in investment dollars.



Jarl Pedersen
Port of Corpus Christi



Chris Fisher
Port of Beaumont



The construction of a new dock and the rehabilitation an old one are underway at the Port of Brownsville. Both of these projects are meant to heighten efficiency in the port's handling of liquid bulk cargo, storage of which is central to the port's economic makeup.

According to Matt Cravey, a long-time industrial broker in the area who now runs Cravey Real Estate Services, these two projects have driven demand for industrial space throughout Corpus Christi. General contractors, materials suppliers and project maintenance firms comprise the core of industrial tenants.

“Without question, these big projects are driving our market right now,” says Cravey. “But we’ve also hit a point where oilfield users are returning to the market while these other companies are entering it. So we’ve got a serious shortage of stabilized industrial buildings right now.”



Matt Cravey
Cravey Real Estate Services

In addition to a dearth of modern industrial space, the new brand of industrial tenants in Corpus Christi are also hindered by their leasing requirements. Users with ties to the two projects want short-term leases that only cover the duration of their stays, which are usually less than two years. Landlords aren’t too keen on that. Furthermore, the short time frames that tenants want tend to discourage developers from undertaking speculative construction.

“These industrial users don’t have time to wait for a build-to-suit property to be developed for them,” says Cravey. “There’s just so little product for lease here that we’re taking users to sites that are 30 or 40 miles outside of the city.”

Brownsville: Liquidity in Land

The Port of Brownsville in the Rio Grande Valley (RGV) owns approximately 40,000 acres, making it the largest land-owning public port authority in the country. And there is ample room for industrial growth within that developable land.

Storage, particularly of liquid bulk cargo and direct imports from Mexico, is a big driver of activity in this market. The Port of Brownsville boasts nearly 4 million square feet of open and covered storage space, making it a key player in the logistics arena for cross-border trade.

But the port is looking to expand its role in supply chain management, as evidenced by recent projects, primarily the proposed development of the GEOTRAC Industrial Hub. The 1,050-acre project can deliver rail-served space for light and heavy manufacturing, as well as export and import warehousing.

“We have a lot of land that we can leverage against some of the industrial development that’s going on,” says port director and CEO Eduardo Campirano. “That’s one of our biggest advantages relative to other ports.”

Closer to the water, the Port of Brownsville is going through the de-

sign and engineering phase of its own channel-deepening project, which would deepen the water drafts from 42 to 52 feet. Projects to construct a new dock and to rehabilitate an old dock — both of which will be used in the handling of liquid bulk storage — are also underway. Those projects are expected to be complete by mid-2019.

At present, the development of three facilities to liquefy and export natural gas has been proposed and is moving through the permitting process. The port expects that the final, pre-construction approvals for these proj-

ects will be handed down this year.

This trio of projects represents about \$38.75 billion in public and private investment and will consume about 2,300 acres, according to Campirano.

“These projects are going to be big drivers that will benefit the real estate market,” says Campirano. “We also have



Eduardo Campirano
Port of Brownsville

some smaller energy manufacturing and warehousing projects being developed on port-owned land that’s on the fringes of major roadways.”

The Port of Brownsville has also been named one of two finalist locations for Big River Steel’s Project America, which centers around the development of a \$1.5 billion steel mill. According to Campirano, landing this project would result in the direct creation of about 500 high-paying jobs, as well as ancillary services.

The port expects to get word on that project within the next six months. ■

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