



CONFIDENTIAL – Presentation Briefing

Date: March 14, 2024

Re: Real Estate Investment Advisory Council
First Quarter Presentation: **No Recession Here: The Impact of the Georgia Ports Authority on Commercial Real Estate**
The Buckhead Club

On Wednesday, March 13th, The Real Estate Investment Advisory Council gathered at the Buckhead Club for an in depth discussion on “the intersection of real estate and the State of Georgia economic expansion” with its presentation of “No Recession Here: The Impact of the Georgia Ports Authority on Commercial Real Estate.”

A packed-house crowd of 100+ REIAC members and guests were treated to the high-level expertise and experience of:

Dr. Walter Kemmsies, Managing Partner, The Kemmsies Group
Stacy Watson, Georgia Ports Authority
Eric Howell, CEO, Port City Logistics
Michael Murphy, Chief Development Officer, CenterPoint Properties
Richard Ross, CEO, Quinn Residences
Bobby Norwood, JLL, Moderator

If that wasn’t enough for one presentation, REIAC was extremely excited to introduce our special guest speaker, **Governor Brian Kemp**.

The Governor lead off our presentation with an update of the jobs tally from various State economic initiatives. In the last five years the State has invested \$74.5 billion in various projects across Georgia, 75% of which are outside the Atlanta MSA. By design, these projects are meant to bring higher wage jobs to rural counties that do not enjoy the same proximity to the larger employment centers here (i.e., Atlanta).

The Governor’s original promise made to companies moving to or expanding in Georgia:

- We will find the right people for your facility, and
- We will find affordable housing for your workforce.

Building affordable (little “a”) workforce housing is a priority, accomplished by designating financial grants directly to local developers in these counties to “lower the point of entry” for rental housing.

The Governor acknowledged the pain felt in the office industry, and Mr. Kemp even recalled his own family's painful experience of being a property owner and landlord struggling through the 2008 Great Financial Crisis. Fortunately, Atlanta's Fortune 500 corporate tenants are mostly holding steady on employment levels and are generally not part of the job layoffs that are mentioned frequently in the national media.



Nonetheless, the Governor continues to market Georgia aggressively for corporate relocations, whether pursuing California companies to move here, or going overseas. His recent trip to Davos for the World Economic Forum was not a signal of being a globalist, but to sell Georgia benefits, primarily our in-place infrastructure – rail, ports, highways, airport, inland ports. And two new nuclear power plants (our lights don't brown out. We're looking at you, California...).

To continue targeting California vs the tax benefits of a Georgia location, California is enduring a \$60 billion budget shortfall while Georgia is sitting on a \$16 billion *surplus*. And that surplus does not include the \$5 billion in *tax rebates* back to Georgia citizens and employers over this year and next.

The Governor took a few questions from the real estate audience. On the recent water battles with Florida and Alabama, the Supreme Court's decisions have placed Georgia in a much better place to negotiate (and get concessions) from our neighboring states.

The film industry causes the Governor some concern; the new AI capabilities to create video content may prove to compete against the many film studios constructed around the state. Too many studios, perhaps, and there might be a glut of unused studio space in the near future, as well as the surrounding commercial real estate properties.

The most important question/answer exchange, though was 'no, I'm not running for President.' **The Governor swears he's not running**, and pointed out that interested voters would not get much success clearing that with the boss, as Mr. Kemp pointed to the First Lady, who was also in attendance.



The larger panel discussion began with an overview of the Georgia Ports Authority's impact on the state:

- The 1,200 acre Port of Savannah (Garden City Terminal) will be expanded by another 200 acres;
- \$4.5 billion to be spent in expansion and related infrastructure in the next 10 years;
- Second largest container port in the United States (only the Port of NY/NJ is bigger);
- Current capacity of 7.5 million containers (TEUs, or Twenty-foot Equivalent Units) annually to grow to 13 million over the next 10 years;

- Gainesville, GA inland port under construction (the Blue Ridge Connector), with a future W. Central Georgia based around Kia Motors;
- The GPA has acquired raw land across the Savannah River for future expansion of the Port of Savannah beyond the current planned expansion;
- Port of Brunswick is the second largest automobile importer/exporter in the country.



What sets apart the Ports in Georgia from the rest of the country's ports?

First, availability of land close to the port itself. Ports in New York or Los Angeles are surrounded by already built-out land uses, so no place to expand unless a site is found some further distance out. The Port of Savannah, for instance, can place a new warehouse in the next available close site and allow for efficiency of "turns." Meaning, a delivery from dock to warehouse, and returning back to dock for a second load. This metric shows that Savannah's turns average 45 minutes, compared to 75 minutes in New York and two hours in Los Angeles. Savannah customers **can turn five times a day vs. two turns elsewhere.**

Second, the "three 'C's" of Cost, Consistency and Capacity. Southeast Georgia is simply a less expensive business environment than its northeastern or western competitors. As well, a lower cost basis provides opportunity for smaller distribution companies to establish its footprint. The numerous access points and transit avenues provide for a consistency of fewer traffic jams and bottlenecks. And Savannah has far more future capacity available than any other port operation.

Third, the Port of Savannah **maintains the strategically important equilibrium of imports to exports.** International shippers want to be able to take on cargo at a port right after off-loading cargo there, and not have to return empty. Case in point – Florida’s several deepwater ports are not as busy as Savannah because Florida as a whole is more of a “consumer state” (importing) but not a production state (exporting), so not cost effective. In fact, most shippers use Savannah to get products and cargo to Florida rather than docking directly at the Port of Jacksonville or Fort Lauderdale.

On the commercial real estate front, all of this expansion means MORE JOBS. And more jobs mean the need for places for these new workers to live. Quinn Residences’ four BTR communities in Savannah are 100% occupied, and Quinn could start four more communities tomorrow – if it could find the land. More on that in a bit.

Bringing home the bacon

The jobs created by the Ports are **also higher wages than one might think.** These are not hourly wages barely above minimum wage, but incomes that are **5x of monthly rents vs. 3x** which is a multifamily industry standard (the stereotype lower wage blue-collar earners are being replaced by automation). The typical BTR rent is \$2,000 per month, easily covered with these income levels.

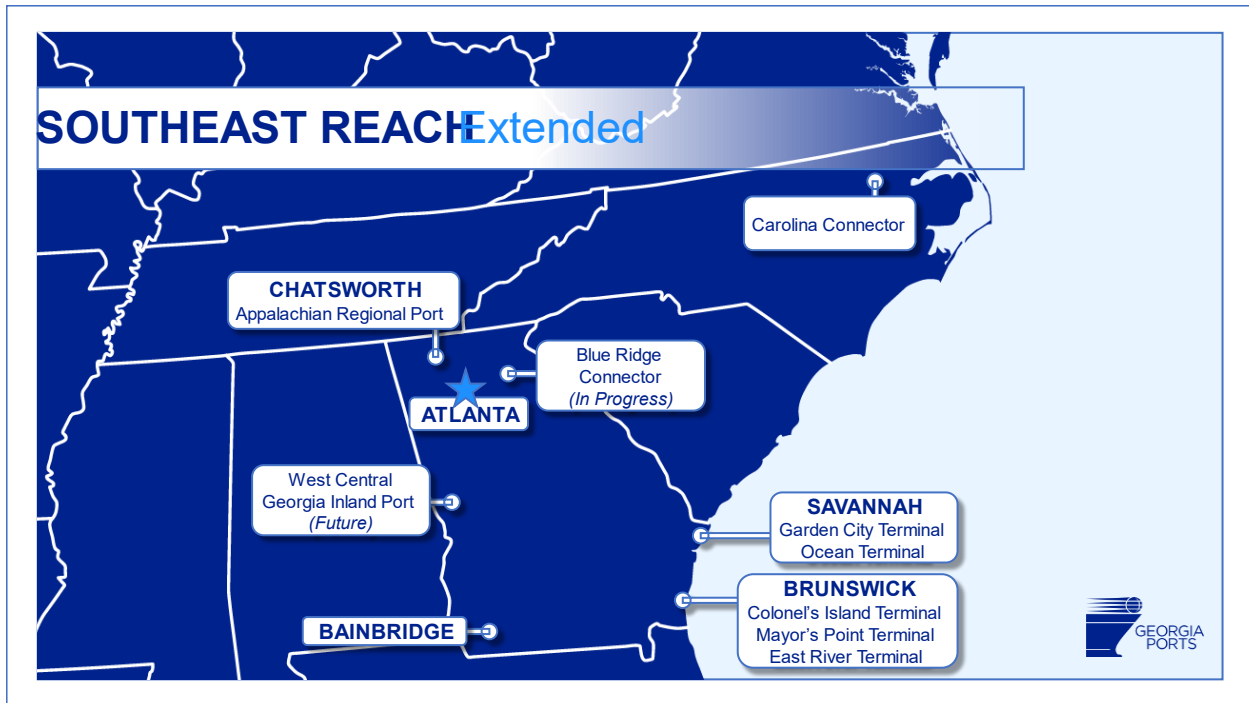


The Ports offer high wages, in part because of the requirement to match union wages even if certain employees are not union. Nonetheless, finding more workers is a challenge. Distribution and logistics companies are **moving to amenity wars to retain employees**, with warehouses built out with “unwind rooms” and fully encompassing HVAC systems in one million square foot facilities; a few industrial fans blowing air in the summer is no longer viable.

The Gateway

Savannah stands out from competition by the efficiency of “the Gateway:” **the ability to connect the ship to the rail to the road to the warehouse.** Savannah’s gateway expertise drives a different type of user than most ports, meaning, the regional distribution and logistics firms. It is a more intensive and fast-paced operation than finding a place to stack TEUs or boxes.

Inland ports address much of that capability – loading cargo straight onto rail that moves it immediately to ports in northwest and northeast Georgia. This alleviates traffic on the roads and drops the cargo near inland interstate highways where it is easier to place on trucks and get moving to the rest of the country. Georgia’s inland ports follow the example of South Carolina’s Greenville/Spartanburg inland port (connected to Port of Charleston). An inland port needs to start with a substantial anchor tenant, like BMW that builds and exports all of its production to Europe.



In Georgia, the state is working to establish an inland port in LaGrange, drafting off the Kia Motors facility and all the related car suppliers there.

Following these inland ports, residential developers seek three characteristics for new sites, the first being the jobs created by the port. Proximity to retail and quality school districts are the others. Quinn is developing three communities in Gainesville and two in Commerce, GA, site of the gigantic SK Battery plant. SK was encouraged to build in Commerce because of its close location to the Gainesville inland port (as well as, interestingly, the large Korean population in nearby Gwinnett County).

Supply Chain Disruption

The Ports of Savannah and Brunswick operate like a well-oiled machine, but are still subject to potential disruption beyond its control, i.e., in the supply chain leading up to the Ports. One example – tariffs. Several years back, the Trump Administration placed tariffs on Chinese goods. Once priced out of the US market, the Chinese production was moved to other southeast Asian countries or to Mexico. If Mexico inherited the production line, the west coast ports like Los Angeles lost significant shipping business, since the finished product in Mexico was trucked north to the United States consumers. Closer to home, a longshoreman strike in the Port of Los Angeles meant that Pacific Ocean shippers would give Savannah a second look, since labor relations with unions in Georgia are much smoother and fewer strikes.

COVID is a double-edged sword for Georgia ports. On one hand, Georgia ports had their best years during COVID since the population was in lockdown and spent an inordinate amount of time (and money) ordering items from Amazon and elsewhere, increasing shipping traffic through many supply chains. However, COVID also taught American businesses about on-shoring of manufacturing facilities back to the US (or near-shoring to Mexico), meaning less traffic through our ports.

One “plus” for Georgia is **the emergence of India as a replacement source of manufacturing from China.** Other southeast Asian producer countries ship cargo via the Pacific to the US west coast; India’s most efficient route to the US is via the Atlantic into Savannah.

Another plus for Savannah is an **anticipated further deepening of the Savannah River** so as to accommodate even larger capacity container ships. The Army Corp of Engineers’ channel-dredging program that began in 1997 is what led to the economic boom and jobs engine of the Georgia Ports Authority, and the Georgia legislature hopes to repeat with Federal funding currently working its way through the governmental approval process.

Worries?

The panelists voiced their concerns of “what keeps you up at night?”

Traffic – it is heavy and getting worse. The only consolation there is that other Ports are “worse-er” and Savannah is still able to maintain its Gateway efficiently.

Myopic municipal zoning restrictions – the need for more residential development is abundantly clear. What is **also abundant is red tape and bureaucracy of getting sites zoned** for the various needed development to supply housing. Despite the success of the Ports Authority and the power of the State of Georgia to create economic incentives, the business of building permits and approvals is out of state jurisdiction. It’s the local city hall, and all the governmental inertia that implies, that keeps the Ports region chronically under-housed.



International conflict – the Middle East and the Red Sea have shown just **how much chaos a single militant group can cause** in re-routing the world’s commerce lanes. Whether it is Russia, Iran or the Houthis, these problems are not (nor ever) going away.

Competition from home – The Georgia Ports Authority have done such a good job with Savannah and Brunswick that the Ports of NY/NJ, Los Angeles and just about everyone else are constantly sending “observers” to Georgia to see what the magic formula is so as to repeat it at home.

At least that’s a sign that Savannah is at the top of its game.

About REIAC

The Real Estate Investment Advisory Council (REIAC) was established as a nonprofit trade association to provide a forum for the exchange of ideas, concerns and experiences among senior executives who conduct commercial real estate transactions. The Southeast chapter of REIAC was founded in 1994.

REIAC is an exclusive, **principals-only** national fellowship of top real estate executives that offers superior educational events, networking opportunities and community service. REIAC's institutional quality programs are presented in a social environment where members can share experiences and knowledge with their peers. REIAC events encourage members to broaden horizons and develop personal relationships that further their success within the industry.



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