

What to Do When the Inventory of Developable Land Runs Out?

AAPA Real Estate Conference


December 10, 2015

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Introduction

Background and Context

Three Things:



The diagram consists of three overlapping circles arranged in a triangular pattern. The top-left circle is labeled 'Prioritize Land Use', the top-right circle is labeled 'Expand Footprint', and the bottom circle is labeled 'Acquisition'. All three circles overlap in a central region.

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Background & Context

- Will talk about the Port Authority of NY and NJ and our particular challenges as it relates to this topic.
- While we in NY/NJ have employed a number of initiatives in partnership with our many port stakeholders, I am going to focus on three areas:
 - Prioritizing Uses – land use planning. Highest and best use concepts
 - Expanding the Effective Footprint – Basically this has to do with growing the effective footprint of the Port without acquiring new property.
 - Finally, will talk about how the Port Authority has utilized acquisition in to address future needs.

I envision these concepts as being intertwined and interdependent – and will hopefully provide examples that highlight some of those inter-relationships.



What are we talking about when we say we're running out of available land?
 Here's a little context for what it means in NY/NJ

The Port District (map) – generally comprises the 25-mile radius around the Statue of Liberty

- 1,500 Sq. Miles
 - Over 200 municipalities in 17 counties in NY and NJ
 - Approximately 13 million people
 - Over 4.8 million households
 - NJ – the most densely populated state in the country.
- Highlight PANYNJ assets
 - NY/NJ Bridges & Tunnels
 - PABT
 - EWR, JFK, LGA, Teterboro and SWI
 - Port Commerce Facilities (PN/EPAMT, Port Jersey North/South, BPAMT, HHMT)

The Port complex comprises those properties in green on the map.

- 3,100 acres
- Competition



- Now I want to focus on the area of NJMT



On the left is Port Newark/EPAMT
2,100 acres in the Cities of Newark and Elizabeth.

On the right is Port Jersey
Approximately 400 acres in the Cities of Bayonne (south) and Jersey City (North).



In addition there is other critical infrastructure in the direct vicinity of the port complex.

Newark Liberty International Airport – Over 35 million PAX in 2014.

Cities of Newark, Bayonne, and Jersey City. Newark & Jersey City are the two largest cities in New Jersey.

Bayonne lies on a peninsula and has a mix of residential and commercial uses.

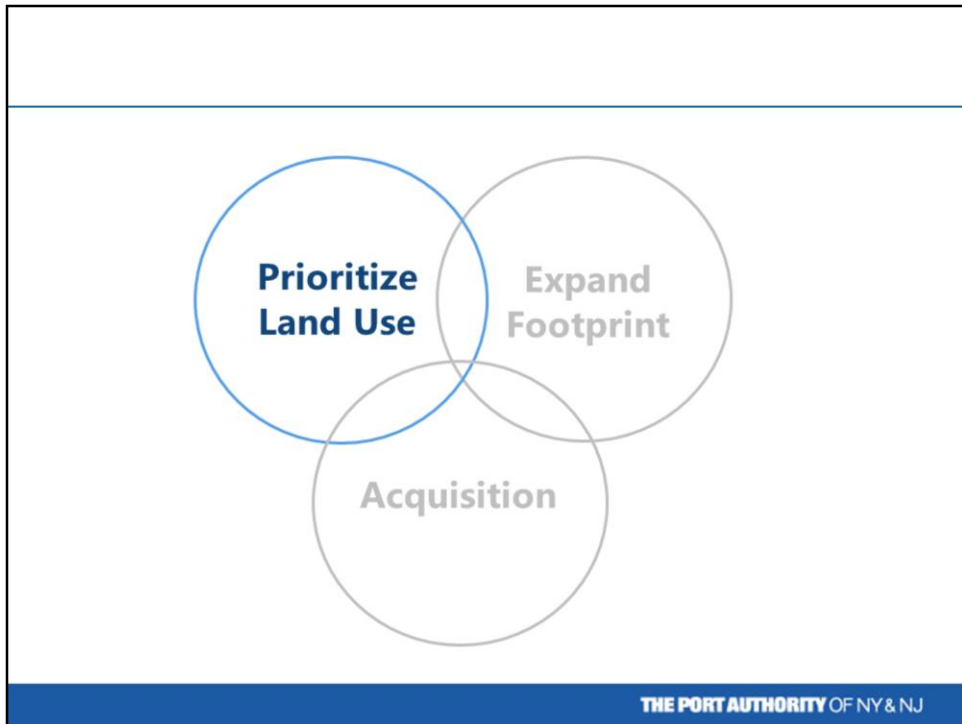


And finally,

Interstate 95 – the primary North/South corridor for both autos and trucks along the East Coast.

Chemical Coast Line – major rail infrastructure that generally runs parallel to I-95 in this area.

There really are very limited opportunities for growth and expansion.



So getting back to our “Three Things” the first thing I will discuss is Prioritizing Land Use

Prioritizing Uses

A Diversified Port

Autos

Bulks and Liquid Bulks

Container Terminals

Cruise Terminals

Warehousing & Distribution

Marine Salvage

Dry Dock

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The Port of NY/NJ is really a diversified port handling a number of cargoes.

Autos

Bulks/Liquid Bulks

- Orange Juice
- Cement
- Scrap Metal
- Salt
- Belgium Block
- Food Grade Oils
- Petroleum

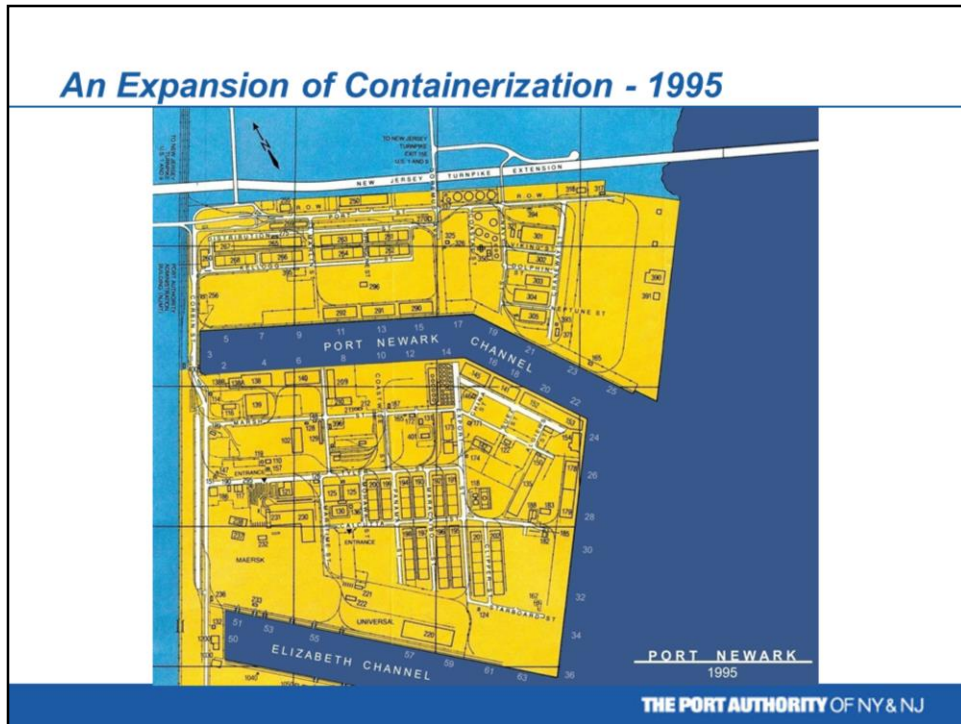
Container Terminals

Cruise Terminals

W&D

Marine Salvage

Dry Dock

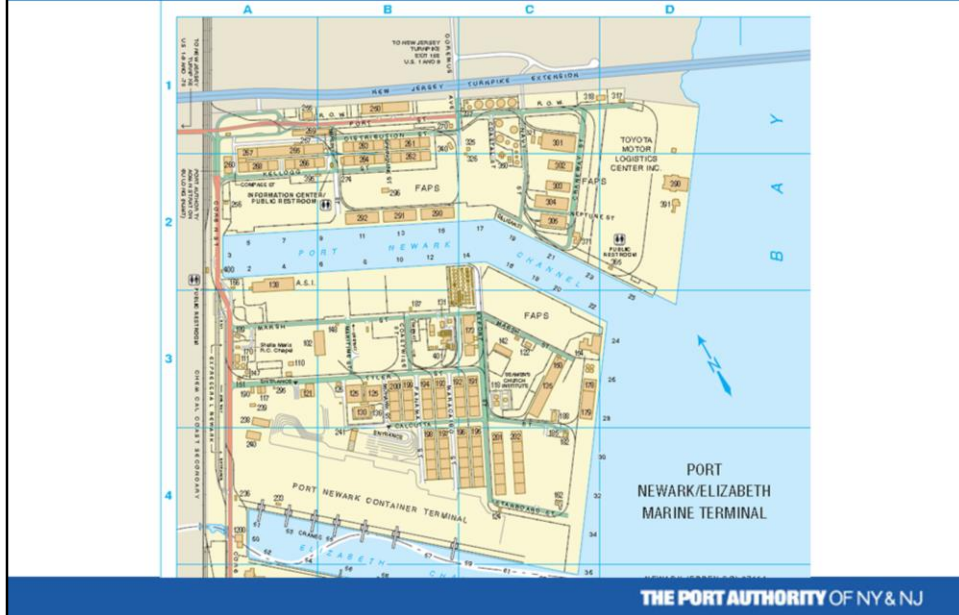


While we have maintained that diversity over time – there has been a concentration of containerization.

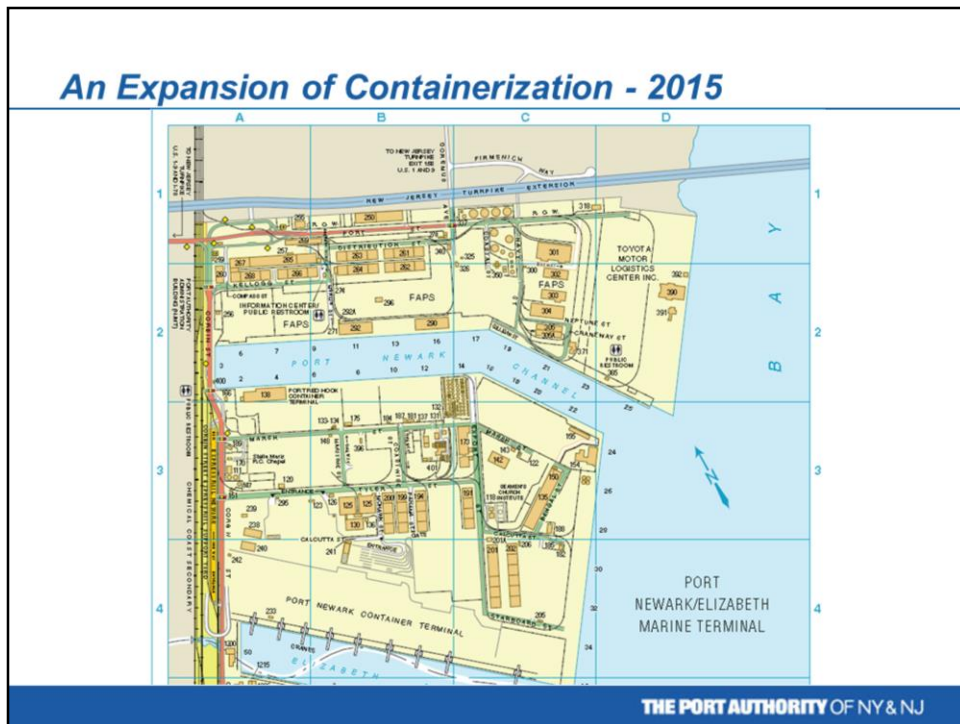
This map shows Port Newark 20 years ago. Note the number of warehouses, especially along the berths.

Note buildings 291 (Berth 13), Building 220 (Berth 57), and the area in Port Newark Channel along Berths 16-22.

An Expansion of Containerization - 2005



Reduction of Warehouse uses to make room for other uses. In particular, during 1995 and 2005 several hundred thousand SF of warehouses were demolished along berths 16-20 to make room for other uses.



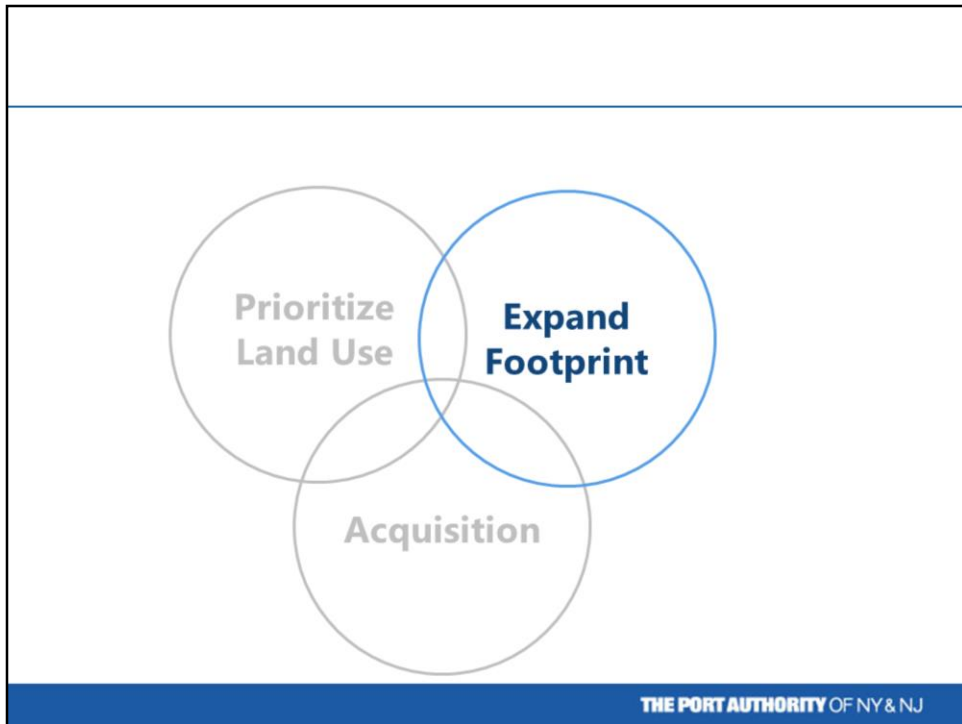
Jumping ahead another 10 years to today, additional reduction of Warehouse uses has occurred to make room for additional container storage and other uses.

Between 1995 and 2015 more than 2 million SF of warehouses have been demolished and repurposed for other uses.

The need for these uses have not gone away. As the type of W&D product has evolved over time – the private sector has filled this void. In just the last two years over 4.5 million SF of modern W&D facilities have been constructed in near-port submarkets (Newark, Union County and Hudson Waterfront).

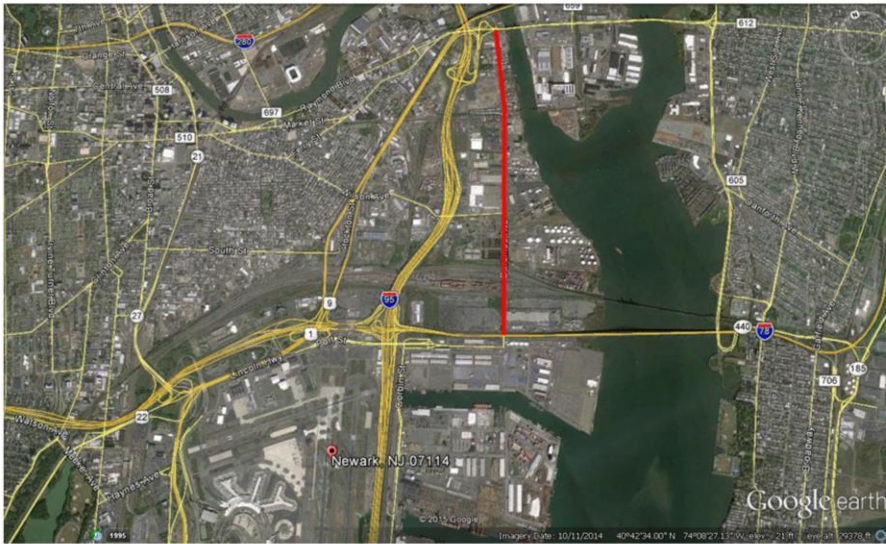
Moving some warehouse & distribution functions to near but off-port locations has expanded the effective footprint of the port. A higher concentration of goods that need to traverse the wharf has stayed on port while breakdown and re-stuffing of containers can be effectively

handled off-port. As noted before this prioritization of uses also overlaps with expanding the footprint.



The port has utilized a number of measures attempting to expand the effective footprint of the port without acquiring property. I will briefly discuss two of them.

Expand the Effective Footprint - Going Out



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Expanding Overweight Corridors – City of Newark

Federal regulations limit Gross vehicle weight at 80,000 pounds. Roads within the Port Terminal complex are considered Marine Terminal Highways and have a weight limitation of 128,000 pounds.

The Port Authority has worked with its municipal partners, in this case, the City of Newark to designate additional heavy weight corridors.

In 2009 the City of Newark passed a municipal ordinance to increase the weight limitation on a 2.5 mile secondary access road to/from the port as a heavy weight corridor.

This has expanded access to an additional 1,000 acres of land whereby trucks do not have to break-down and re-pack trucks to meet the 80,000 pound highway weight limit. This corridor contains over 3 million SF of industrial space that can be used in support of Port operations. In addition, there is additional underutilized brownfields that could be developed to further support these efforts.

Expand the Effective Footprint – Going Up

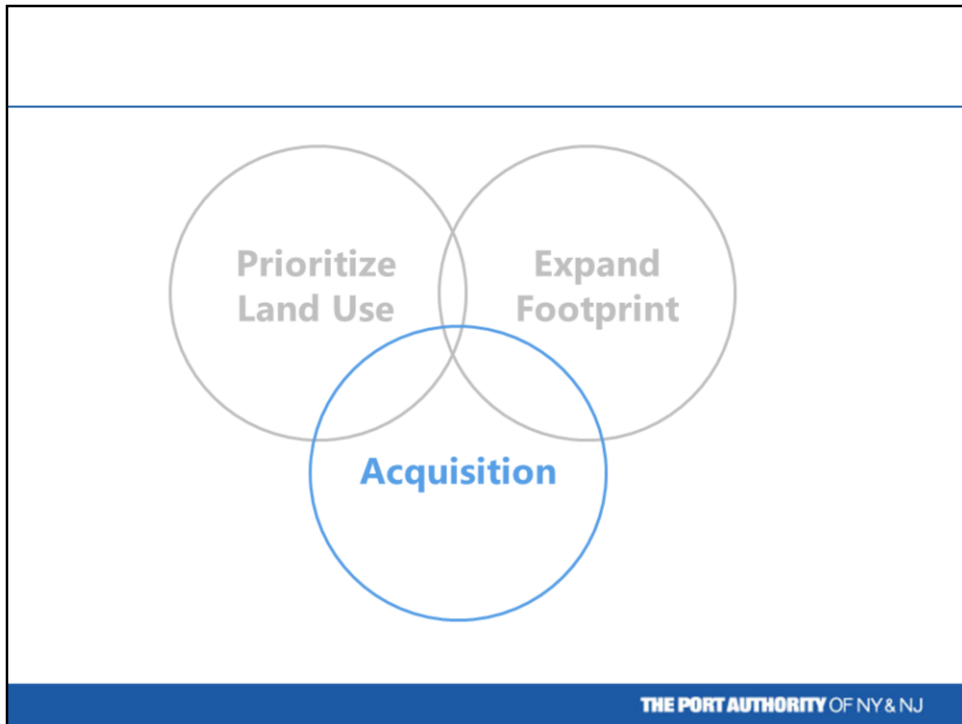


Cruise Terminal – construction of a 900-space parking garage

- Until recently utilized surface parking. The Cruise Terminal currently comprises about 23 acres of property.
- Upon final completion and acceptance of this parking garage tenant will reduce its footprint to just over 11 acres.
- This reduction in the footprint is enabling the Port Authority to establish a 19-acre area directly adjacent to the existing cruise terminal that could serve as a future additional cruise terminal.

So far – we’ve covered how we can maximize land use through prioritization and finding alternative methods to expand the footprint of the port.

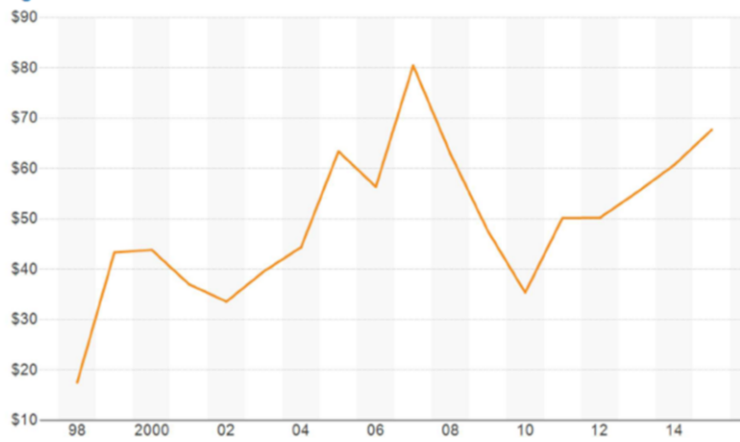
These help – but sometimes, at the end of it all, you have to acquire property in order to effectively serve the needs of the port.



Finally, I will briefly discuss a few key acquisitions completed by the Port Authority in recent years.

Historic Sales Prices – Northern NJ Industrial

Average Sale Price Per SF



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Since 2000 Average price per SF of Industrial space in the Northern NJ market has increased from about \$44/SF to \$68/SF. (55% total increase and an average of approximately 3% CAGR)

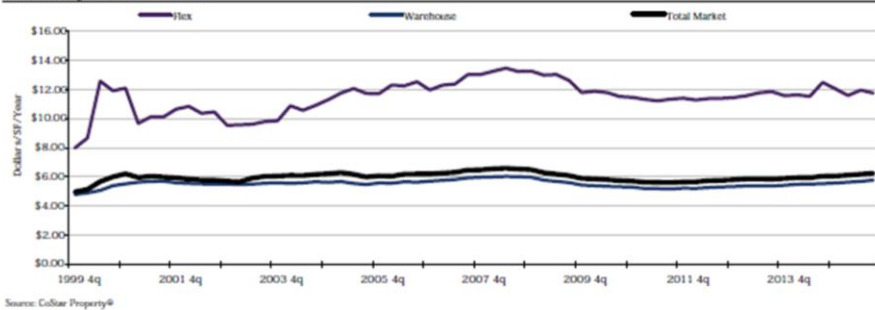
Note the 2007 Peak followed by the trough in 2010 due to the Great Recession.

Overall – healthy growth.

Historic Rental Rates – Northern NJ Industrial

Historical Rental Rates

Based on Quoted Rental Rates



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Interestingly – rental rates have not followed suit. Note the middle line. They have remained relatively constant throughout the peaks and valleys of real estate cycles since 2000.

In 2000 industrial rents in the Northern NJ market were just north of \$6/PSF. While there have been fluctuations the asking rental rate has largely remained between \$5.50 and \$6.50 PSF. Therefore, as sale prices increase – there is an assumption of cap rate compression.

In an environment where competition is fierce for stringent dollars – the inability to obtain higher rents as acquisition costs rise can have an impact.



Port Jersey North – Container Terminal Acquisition

In 2010 the Port Authority acquired a 100-acre container terminal and long-term leased it back to a container terminal operator. The property is being combined with an additional 70+ acres that the terminal is redeveloping. This terminal is the first in NY/NJ to employ advanced automated systems (RMG's, etc) to optimize operations.

Sale – Leaseback



Port Jersey North – Container Terminal Acquisition

The acquired property is being combined with an additional 70-acres of property already owned by the Port Authority to create a 170-acre container terminal.

The tenant is investing more than \$300 million to redevelop the terminal.



2010 – Acquisition of 219,000 SF Warehouse facility.

Potential support for the adjacent container terminal facility as well as future access to Port Jersey South.

Use of eminent domain.



2013 – Acquisition of 225,000 SF Warehouse facility.

Potential support for the adjacent container terminal facility as well as future access to Port Jersey South.

Thank You!



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Have we been successful?