Infrastructure entails a vast number of systems and facilities that we interact with daily but rarely think about. Infrastructure takes us to work, pipes water to our homes and conveys freight across the country and around the world. Therefore, it’s no surprise that the presence – or absence – of suitable infrastructure can have a dramatic effect on the commercial real estate that surrounds it.

There is general agreement that infrastructure in the United States has long been underfunded and underdeveloped – evidenced by a high-profile bridge collapse, transit system shutoffs and water systems tainted by lead. The American Society of Civil Engineers estimates that the United States would need to spend $3.6 trillion by 2020 to bring the country’s infrastructure back to a level described as adequate.

Despite the neglect our national infrastructure has suffered, some cities have embarked on projects that will reshape large parts of their metropolis. They’ve recognized that in order to stay competitive and generate economic development, the city’s infrastructure must keep up. Projects run the gamut from new stadiums to reworked interchanges to entirely new districts, but they do have one thing in common: every infrastructure project is expected to lead to rent growth and increased occupancy in its respective market.

Here we take a look at how some cities are leading the charge to stay economically competitive. The more progress made on this front, the more cities will be able to improve their commercial property markets and maintain a vibrant economy.
REPRESENTATIVE U.S. INFRASTRUCTURE PROJECTS

SAN FRANCISCO BAY AREA
- Transbay District
  - Intermodal Transportation Center and redevelopment of neighboring 6 MSF office district
- Oakland Global Trade & Logistics Center
  - Redeveloping former Army base as logistics and intermodal distribution facility

CHICAGO
- O’Hare Modernization Project
  - Reworking of O’Hare Airport’s runways to eliminate intersections, increase capacity, reduce delays and meet future demands

BOSTON
- Seaport Square
  - An entirely new district and extension of Downtown Boston

NEW JERSEY
- New Jersey Turnpike Widening
  - Widening the Turnpike between exits 6 and 9 in Central New Jersey

NEW YORK
- Hudson Gateway Project
  - A new rail tunnel under the Hudson River link New York, New Jersey and the greater Northeast
- Hudson Yards
  - A new neighborhood built over railyards with a subway extension with 6 MSF of office space
- LIRR East Side Access
  - Rail tunnel connecting Long Island Railroad (LIRR) to Grand Central Terminal and the east side of Manhattan

WASHINGTON D.C.
- Silver Metro Line
  - 11 new train stations and 23 miles of new rail line connecting to Dulles Airport

LOS ANGELES
- Metro Line Extensions
  - Extension of Gold, Expo and Purple metro lines to the west side of Los Angeles and further into the San Gabriel Valley
- Middle Harbor Terminal Replacement
  - Replacement of Cargo Terminal to increase capacity and reduce delays, and keep the port competitive

HOUSTON
- Grand Parkway
  - 180-mile toll beltway encircling Greater Houston and opening new office submarkets across the metro area

ATLANTA
- I-285/GA-400 Interchange
  - Modernization and improvements to one of the busiest interchanges in Atlanta
- SunTrust Park
  - A new shopping, dining and entertainment district anchored by Atlanta Braves stadium in Cobb County

ANTICIPATED COMMERCIAL REAL ESTATE IMPACT
- OFFICE
- INDUSTRIAL
- RETAIL
- HOSPITALITY
- MULTIFAMILY
I-285/GA 400 Interchange
Reinventing an interchange to meet future needs

The I-285/GA 400 interchange is one of Atlanta’s most traveled (more than 400,000 vehicles per day) - and most congested. Located at the heart of the Central Perimeter submarket, this interchange is about to undergo a significant reconfiguration at a cost of $1.1 billion (paid for by the Federal Highway Administration with state funds). The work is expected to begin in late 2016 and be completed by 2020. Traffic is likely to be worse until the project is completed.

The area surrounding the interchange is dominated by Class A office buildings that house several Fortune 500 firms, as well as a very large medical office and hospital district. As part of the redesign of collector/distributor lanes, a number (yet undetermined) of Class B and C office buildings will likely be demolished. Highway access will be improved or downgraded for other Class A and B buildings, depending on their location.

With the demolition of some office product, rental rates on remaining buildings will rise as the market grows more constrained. Moreover, rental rates on a building-by-building basis may rise or fall based on increased or decreased highway access.

Funding: Federal Highway Administration
Completion: 2020

SunTrust Park
Building a sports-anchored edge city

The new stadium for Major League Baseball’s Atlanta Braves will bring with it a $400 million shopping, dining and entertainment district, as well as a new Omni Hotel and a 300,000-square-foot office building that will be occupied by Comcast. All of this was driven by a desire on the part of Braves ownership to relocate and control the environment around its field.

The project will have a minimal effect on the office market in suburban Atlanta but a significant effect on retail, as the new construction will compete with well-established retail centers. This is expected to be a game-changer for the Northwest and Cumberland/Galleria submarkets, bringing a new urban atmosphere to one of Atlanta’s oldest suburban enclaves.

Funding: Atlanta Braves and Cobb County
Completion: 2017

Seaport Square
Boston’s newest office destination

Seaport Square is a vibrant new neighborhood created from 23 acres of undeveloped land in South Boston’s emerging Seaport District. Planned as a 24/7 environment to live, work, shop and play, Seaport Square will bring a mix of world-class office and research space, residences, retail shops, restaurants, hotels and cultural institutions to Boston that are sure to attract many new businesses and residents from across the city, region and globe.

Encompassing 2.75 million square feet of residential, 1.25 million square feet of office, 1.25 million square feet of retail, 800,000 square feet of hotels, 265,000 square feet of cultural and civic space, and 2.25 million square feet of parking, the district will spur an evolution of Downtown Boston and shift the commercial center to the south and east. The Seaport District already has attracted many marquee corporate tenants from other parts of Boston and throughout the country. Most notably, General Electric will relocate from Connecticut, bringing 800 jobs to a 2.5-acre campus.

Funding: Boston Global Investors, Morgan Stanley and WS Development
Completion: 2017

O’Hare Modernization Project
Keeping Chicago at the heart of the U.S. transportation network

Chicago has long been the largest transportation hub in the United States, and O’Hare is one of the busiest airports in terms of passenger and air freight traffic. The O’Hare Modernization Project (OMP) will continue that legacy, transforming O’Hare’s system of intersecting runways into a more efficient system with parallel runways. The impetus for this modernization was major delays caused by the existing cross-runway design, especially in the inevitable cold weather.

Voted one of the worst airports in the country, flights were often rerouted from O’Hare to other airports. Chicago leaders decided it was time to invest money into modernization or the loss to the city’s economy would be severe. The OMP will keep O’Hare - and Chicago - competitive in the global marketplace, as it will serve as a catalyst for economic growth and job creation. For office users, this increase in capacity further cements Chicago as the top corporate destination in the Midwest, helping to keep major tenants in the Chicago area and entice others from mid-tier Midwestern markets.

Funding: U.S. Department of Transportation, Federal Aviation Administration, City of Chicago
Completion: 2021

Grand Parkway
Houston’s third beltway begins to close the loop

As the population of Greater Houston nears the 7 million mark, transportation planners are rushing to expand Houston’s sprawling transportation network to keep up. Houston has long grown past its first two beltways and is now expanding toward the route of Grand Parkway, which eventually will be a 180-mile beltway circling Houston. The initial phase opened in 1994 with additions in 2008, 2013 and 2016. The most recent sections complete an arc across Northwest Houston and surrounding suburbs. The expanded highway will help suburban commuters get around Houston easier and ease congestion on other roadways.

The project will eventually affect multiple commercial property types throughout Greater Houston. Grand Parkway will link two growing office destinations: the Energy Corridor submarket on the west side of Houston with The Woodlands in the north. Improved access and greater demand for office space in these submarkets is expected to lead to increased occupancy and higher rental rates.

Funding: Toll revenue and American Recovery & Reinvestment Act of 2009
Completion: 2016
Metro Los Angeles

Los Angeles looks toward public transit to build its future

Often denigrated for constant congestion and a car-centric culture, Los Angeles has built more mass transit lines than any other city over the past three decades. Since 1990, Greater Los Angeles has laid nearly 100 miles of heavy and light rail lines across the region. And Metro Rail reach is about to expand greatly this year and in the future. The Expo line extension will open in mid-2016, allowing riders to travel as far as downtown Santa Monica, only five blocks from the ocean. The Gold line extension opened earlier this year and extends deeper into the San Gabriel Valley, as far as Azusa. Further down the road, the Purple line extension will push Metro Rail through the west side of Los Angeles. This underground subway will extend along the Miracle Mile, through Beverly Hills and Westwood, eventually terminating in Brentwood. The line is expected to be completed in 2023.

These extensions will help shape real estate development patterns for years to come. The recently completed Gold line and soon-to-be-completed Expo line are already causing multifamily rents near stations to rise faster than rents farther from stations. The Expo line also will serve the growing Silicon Beach tech community. Greater Los Angeles is shifting from one dense urban center to more urban nodes clustered near train stations with office and multifamily space nearby. Commercial real estate within walking distance of transit will see rental rates and occupancy rise faster than projects farther away from transit.

Funding: Sales Tax Revenue
Completion: Purple Line - 2023, Expo Line & Gold Line - 2016

Middle Harbor Terminal Replacement

Keeping the Port of Long Beach competitive

With the completion of the Panama Canal, the ports of Los Angeles and Long Beach were at an inflection point. Larger container ships are now able to go directly to East Coast ports. The port of Long Beach needed to find a way to remain competitive and make it easier for larger container ships to keep stopping on the West Coast. The Middle Harbor Terminal Replacement will redevelop and modernize multiple piers at the Port of Long Beach to meet growing demand. The expansion will double the capacity of the terminal and reduce congestion by directly integrating a new rail line – which will also reduce truck congestion on nearby highways.

Southern California has more than 1.5 billion square feet of industrial real estate, much of which is tied directly to the port. Easing access for the port will increase demand for industrial space in neighboring submarkets and as far out as the Inland Empire. Expect rental rates to rise over the next two years.

Funding: Port of Long Beach
Completion: Mid-2016

New Jersey Turnpike Widening

Easing congestion on one of the busiest corridors in the country

The New Jersey Turnpike historically has been one of the most vital and congested roadways in the United States. The stretch between exits 6 and 9 links New York and Philadelphia and more broadly the Northeast and Mid-Atlantic. The roadway had not been upgraded in decades, despite the fact that the Greater Philadelphia and New York regions have grown to populations of 6 million and 20 million, respectively. Central New Jersey also has become the largest warehouse/distribution market in the Northeast due to its access to the largest population centers in the country. Therefore, plans were laid to double the width of the Turnpike and allow for both local and access sections of the road.

Since completion, traffic has been reduced along the turnpike and travel times between New York and Philadelphia have declined. Central New Jersey and its approximately 325 million square feet of industrial real estate product has been one of the main beneficiaries. Decreased travel times and increased productivity will lead to increased demand for warehouse and distribution space. More than 3 million square feet of industrial property development has been completed in Central New Jersey since the completion of the Turnpike expansion, and an additional 3.1 million square feet is currently under construction. These new facilities will be well served by easier transportation access. Additionally, the program has been credited, in part, to the increase in New Jersey Turnpike revenues for 2015.

Funding: New Jersey Turnpike Authority
Completion: 2014

Hudson Gateway Project

A vital infrastructure update digs deeper

The Hudson Gateway Project will eventually deliver two new rail tunnels under the Hudson River between New York and New Jersey. The existing tunnels have been in service since 1910 and have been subject to frequent breakdowns and disruptions. In the planning stages for decades, the project will help alleviate congestion in the existing tunnels as well as provide backup capacity. With Amtrak and New Jersey Transit as users, the Gateway Project intends to double the number of passenger trains that can run under the Hudson River into New York.

Making life easier for commuters into Manhattan will further boost demand for office space. The renaissance of Manhattan and urban office markets in general has been driven by centralized locations and transportation access. By improving access into Manhattan, office tenants will face less pressure to move operations into suburban locations. Inversely, suburban office space and multifamily properties within walking distance of suburban stations will see greater demand thanks to shorter reverse commute times.

Funding: U.S. Department of Transportation, Port Authority of New York and New Jersey
Completion: 2024

Hudson Yards

The “It” place on the West Side of Manhattan

Hudson Yards is the redevelopment of a vacant former industrial neighborhood along the West Side of Manhattan. It traces its roots to a 2005 rezoning aimed to transition the area into an extension of the Midtown business district. The project will eventually feature 6 million square feet of office, 750,000 square feet of retail, 5,000 apartments, 2 million square feet of hotel and 14 acres of public space. Additionally, the Metropolitan Transportation Authority extended the seven-line subway to Hudson Yards so office users and residents have cross-town access and direct connection to Grand Central Terminal and Queens. Hudson Yards represents one of the last sections of Manhattan where developers can shape an entire neighborhood in the heart of the city.

Representing one of the largest urban makeovers in an established city in decades, New York is capitalizing on Hudson Yards. Office properties in the district stand at an advantage to much of the competing product in Midtown Manhattan. Most of Midtown’s existing office product was constructed between the 1960s and 1980s and much of it is outdated and obsolete for today’s office tenant needs. Current office trends and technological needs are driving the construction of new, contemporary office space, which will be able to command higher rent and may see more absorption than other buildings.

Funding: The Related Companies, Oxford Properties Group, Collingwood, New York, Metropolitan Transportation Authority
Completion: 2015-2018
The East Side Access project will create a new extension for the Long Island Railroad (LIRR) that will extend under the East River and into Grand Central Terminal. The extension has been considered since the 1950s and eventually will ease commutes for approximately 160,000 riders daily. It will allow LIRR riders to access the East Side of Manhattan without having to tack on an additional subway ride or long walk from Penn Station. The extension also will ease access for city commuters to jobs on Long Island.

This massive infrastructure project will boost the overall office market. East Side office space will remain competitive and keep tenants in the city, leading to rental rate appreciation. Outside of Manhattan, buildings located near suburban stations will be more attractive and accessible to potential employees, and could lead to more multifamily construction. Upon completion, the East Side Access project also will ease congestion at Penn Station by moving thousands of commuters to Grand Central.

**Funding:** New York Metropolitan Transportation Authority  
**Completion:** 2022

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The district is representative of a shift in the business center of San Francisco. Over the past decade, the heart of the business district has moved from the Financial District to South of Market and this development will further cement that center. New office inventory will help ease supply constraints in a market with very high barriers to new construction. An infusion of additional supply may help contain rental rate growth and allow tenants to expand or stay in the city.

**Funding:** American Recovery & Reinvestment Act of 2009, Transportation Infrastructure Finance and Investment Act, Land Sale Revenue, Bridge Tolls, Sales Tax, et al.  
**Completion:** 2017-2020, in phases

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Oakland Global Trade & Logistics Center  
**Silicon Valley’s port joining the 21st Century**

Oakland Global Trade & Logistics Center will sit adjacent to the Port of Oakland on an Army base decommissioned in 1999. The project will bolster the West Coast’s third-largest port by adding an intermodal rail hub, additional rail yards, a bulk terminal and more than 1 million square feet of warehouse and distribution space.

The project comes at an important time for the Port of Oakland. The port moved nearly 2.3 million containers in 2015 and that volume is expected to grow in the coming years. Oakland is the nearest port to agricultural bounty of the Central Valley and center of the technology industry in Silicon Valley. Moreover, the industrial market in the area is changing quickly. Warehouse tenants are shifting their strategy from simply having vast distribution facilities on the suburban fringe to operating multiple, smaller warehouses throughout a metro area to serve consumers with same-day and next-day delivery. The additional inventory will allow some warehouse tenants to upgrade into space immediately next to the Port of Oakland that is configured for a modern warehouse user’s needs. Space at the Trade & Logistics Center will lease at much higher rates and be absorbed more quickly than warehouse space in neighboring submarkets.

**Funding:** State of California, City of Oakland, U.S. Department of Transportation, ProLogis, California Capital & Investment  
**Completion:** 2015-2017, in phases

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Silver Metro Line  
**The distance between Dulles and the District is about to shrink**

The Silver Line is a 23-mile extension of the Metro rail system. Once complete, the Silver Line will add 11 new stations to the Metro system. Five new stations have already come online. The new line will eventually reach Washington Dulles Airport, finally connecting the region’s largest airport with the Central Business District.

This extension will be a major change for already well-developed edge cities in Northern Virginia. Markets like Tysons Corner and Reston have evolved from suburban crossroads into leading corporate and retail destinations. Tysons Corner alone has 28.8 million square feet of office space and 5.5 million square feet of retail. However, these suburban markets have been car dependent. Enhanced transit will allow suburban office buildings to remain competitive against more centrally located projects. Additional access will only improve market conditions for buildings within walking distance of new rail stations. These properties can expect to see rental rates rise and occupancy rates increase.

**Funding:** U.S. Government, Special Tax District on Commercial Properties, Toll Road Increase, Commonwealth of Virginia, Local Governments  
**Completion:** 2014-2020, in phases

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**LIRR East Side Access**  
**One of the country’s largest projects chugs along**

**Transbay District**  
**The center of San Francisco moving South of Market**

Currently under development, the Transbay District will eventually house an intermodal transportation destination and 6 million square feet of new office space. The new transit center will house three transportation options: (1) Caltrain will extend its terminus further downtown into the Transbay Transit Center; (2) The center will be the terminus for the future California High Speed Rail Line; and (3) the center will be the hub for regional bus service. Amidst the office building will be Salesforce Tower, which will be the corporate headquarters for Salesforce and the second tallest building in the Western U.S.

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**Funding:** New York Metropolitan Transportation Authority  
**Completion:** 2022

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**SOURCES**

Transwestern, Amtrak, Atlanta Braves, Chicago Department of Aviation, CoStar Group, Georgia Department of Transportation, Los Angeles County Metropolitan Transportation Authority, New Jersey Transit, New York Metropolitan Transportation Authority, Port of Long Beach, Port of Los Angeles, Port of Oakland, San Francisco Metropolitan Traffic Commission, Texas Department of Transportation, Washington Metropolitan Area Transit Authority

**TRANWESTERN RESEARCH**

In markets across the country, Transwestern research professionals produce sophisticated data analyses, local market reports and insight on national trends that help clients make informed real estate decisions.

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