Following are the flip-chart notes from the September 18, 2018 Port Real Estate Workshop session titled, “Port Property Land-Use Planning,” led by Franc Pigna, Managing Director for Aegir Port Property Advisers.

There were six teams, three of which represented container ports and three which represented non-container ports.

Each team was asked to address a series of general questions, including:

- Port Real Estate Leases:
  - What can ports do in leases to ensure tighter control over their property assets in the medium to long term?
  - What should be included in a lease to ensure that the port’s revenue streams are protected?
  - What is or should be the relationship between a lease on a property asset or facility and throughput charges?

- Land-Use Planning:
  - What are some of the essential elements/inputs that should go into the land planning process for the current and future development of a port facility that will ensure its long-term competitive viability (e.g., position within the supply chain, cargo mix now and, in the future, asset management issues, etc.)?
  - What are examples of functional and economic obsolescence at a port?
  - In the land/master planning process, what should come first, engineering or market research?

- General:
  - What is the role of the port real estate manger?
  - What are the risks of having non-cargo tenants at a port? How can this be mitigated?

The container port teams were specifically asked to address:

- What role, if any, does real estate play in developing the terms and conditions for terminal concessions?
- Is there a ‘perfect’ balance between throughput and marine versus real estate revenues at a container port?
- Historically and currently, why do MAG’s (minimum annual guaranteed throughput) exists? Why do the ratings agencies want then as high as possible? What impact, if any, do they have on the port’s real estate values?

The non-container port teams were asked to specifically address:

- How do inland ports’ (i.e., ports with water access) business models differ from those of inland container transfer stations and gateway sea container ports?
- Should ports sell land within port perimeter for ‘economic development’ purposes even if the prospective buyer will generate cargo related revenues?
- In pricing ground leases, should proximity to the water result in a lease premium?

Container Port Team Leaders:

Michael Inman, Manager, Business Development, Port of Prince Rupert (Canada)

Christie Coats, Director of Real Estate, Port of New Orleans
Kelly Orum Sims, Real Estate Manager, Alabama State Port Authority

Non-Container Port Team Leaders:

Mike Schiller, Director - Business Development, Port of Vancouver USA
Lisa Lefeber, Acting CEO/Executive Director, Port of Everett
Diahann Howard, Director, Economic Dvpt. & Gov. Affairs, Port of Benton (WA)

CONTAINER PORT TEAM 1

Leases: Tighter Controls

- **Environmental**
- **Lease Language re: Maintenance**
  - **Be Clear**
- **Protect Value**
- **KPI's**

Container Terminal Concessions

- **Start at Value – 1) Land 2) Rate of Return**
  3) Improvement Value

- **Executive Management/Commission involved in negotiations**
- **Capture in leases – many times not captured**

Revenues

- **MAG - Based on negotiated lease rates**
  - **Multi-step rates**
  - **Pay straight from tariff**
  - **Some ability to negotiate**
  - **Add'l throughput is gravy & at a reduced rate**
- **MAG - Based on facility size**
  - **Tariff rates & special incentive letters**
- **MAG - guaranteed income/revenue**
  - **Hammer for compliance & safety from competition**

Challenges

1) Appraisals

- **Negotiate down from value**
- **Competition**
- **Treat everyone equally**

2) Maintenance

- **Functional obsolescence**

*** Should a tenant be kicked out for lease non-compliance?**

CONTAINER PORT TEAM 2

Leases – Tighter Controls

- **Benefit/Disadvantage – MAG**
- **Lease reopeners vs. long term leases**
- **Asset maintenance**
- **Utilize the property**
- **Liquidated damage clause**

Ensure Revenue Streams are Protected

- **Base Rent**
- **Financial covenants**
- **Guarantee from parent company/LOC/LLC**
- **Step in rights**
- **Early termination rights**

Lease/Throughput charges

- **Base Rate/Tariff charges**
  - if guarantee +, you can discount
  - capital investment/discount

Container Ports

Role real estate plays in developing terms for terminal concessions

- **Real estate is not really considered in these agreements**
- **Engineers/lawyers/marketing div.**

Perfect balance

CONTAINER PORT TEAM 3

Land Planning

- **Zoning restrictions**
  Impacts to other agencies valuation

  - Best use – definition

- **Acquire land**

- **1st Market research** — **2nd Engineering**
  - needs — **- does land + info match?**

  - opportunity
  ex containers

Port authority's setting up other business units to work around core mandate but support community aspect

- **Industrial land champion (agri-like land)**

NON-CONTAINER PORT TEAM 1

Lease

Repairs + maintenance factored in + who responsible
Lack of alignment between - immediate
- future visioning

Monitoring lease performance

*** Long term leases need interim decision points to ensure fits need of both parties over time**

Sublease SLA's
Operating changes
Commodities

Required return in infrastructure costs balanced against community enhancement

Data sharing

#1 Permitting
Port or Tenant
Stormwater/Operator
Clearly State Intended Use
Use/Volume

Relocation TEQ with audits

CAPEX Requirements
Based on Term

#2 – MAG on Volume
CPI or something else
Larger security/bond
Address environment issues at start
Address CAM/other costs
Move quickly internally
Narrow Footprint

#3 70/30 Ratio depends on many factors
30/70 Ratio

#4 Evaluate against market
Divest in Infrastructure

Rail
Land
Current Facilities
Participate in Local/State Federal Planning
Manage Community Expectations

#5 Aging Assets
Buildings
Docks

Union Issues
Older Rail
Unrealized land opportunity
Truck parking vs building for jobs

#6 MKT - ENG
Build to future market trends

NON-CONTAINER PORT TEAM 2

Inland Ports

Pressure on price/competition fierce
10 ports in Grant County (Washington)
Specialty still valid in inland ports
Not on Class 1 - hard to put in cargo
Focus on 1st mile
Data centers due to low energy cost

Sell Land?

Hold land
Restrictive covenant deed – limit to maritime
_ 1st Right of Refusal
San Diego – can't sell land, but can exchange land
New York – Do not sell – ground lease only
Sell land to support jobs
Joint exercise of powers agreement
Mitigation ban
Land use – gentrification
Ground leases/profit
Base rent based on land value
Participation rent based on throughput
Minimum rent (75% of performance)
% rent (% of loan x sales for betterment of land)
Long way to catch up with market
Take % on exit of lease

Cost share
3% food BID
5% beverage

NON-CONTAINER PORT TEAM 3

Challenges - Leadership
Finance support to move to asset managers
Sublets!
Antiquated land use laws
Non- productive use of land port should be able to take back

Leases Shorten Terms
Escalators, restrictions
Build in things that let us move with time
Re-appraise every 10 years
Term depends on investment
Assignment, results in new rate + lease no release until new negotiation compute
Negotiate special rates for special/space leases

Land Planning
Zoning – process timing port facilities needs to be clearly defined
Seeking timing, environmental certainty
One person within agency = delay or turnover unacceptable
Inlands need to be more diverse, opportunistic
Ports should not sell waterfront "God only makes it once"
Yes higher value