

The Great Recession & Latin American ports: challenges, opportunities and solutions®

**And why and how property
will increasingly be the common thread
and underpinning element**



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Summary

- **‘Total Convergence’**: occurring in the industry
- **Economic turmoil**: forcing change on port plans, finance and management
- **Direct private investment**: enhancing a port’s reach and competitive advantages (example)
- **Port property**: increasingly will become a common thread and underpinning element to successful projects
- **The ‘Cuba Factor’**: ready, steady, go?





Roles morphing

TOTAL CONVERGENCE?



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Total convergence

Where old familiar boundaries dissolve:
when ports act like the private sector and
the private sector like quasi government.



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Convergence:

Ports and Companies – both increasingly undertaking Economic Value Added process in their management regime.



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What is a Port Authority today:

- **Asset manager:** needing 'best practices' in lease structuring, asset and property management and realistic port property valuations to facilitate accessing private capital.
- **Profit centre:** days of 'build it and they will come' are over, competitive advantages and market share are key.
- **Property company:** which is in the business of maximising lease revenues and enhancing property asset values.





Innovate or perish

ECONOMIC TURMOIL FORCING CHANGE




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**‘If you are going through
hell, ...**

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...keep going.'

Winston Churchill



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Today everyone focuses on the negative

- World Bank: first decline in Global trade in 80 years.
- IMF: first contraction in global GDP since WWII.
- 'D – Process: Ray Dalio, CIO Bridgewater Associates on restructuring of global economy.
- 'In the simplest sense, the country reaches the point when it needs a debt and organisation restructuring. GM (Government Motors) is a metaphor for the US.'
- Clearly, this is also happening in the ports industry.



But:

‘A pessimist sees the difficulty in every opportunity;

an optimists sees the opportunity in every difficulty.’

Winston Churchill



The opportunity

- **Infrastructure** - an evolving asset class, beyond commercial property and low correlation to stocks bonds and equities, making it attractive to pension and other funds.
- Infrastructure **reaching or beyond design life** span in developed world.
- Infrastructure investments – **still significant amount of investor interest** in this very dim investment market.
- **Property**: entry point for direct investment.



21st century market dynamics

Dynamic:

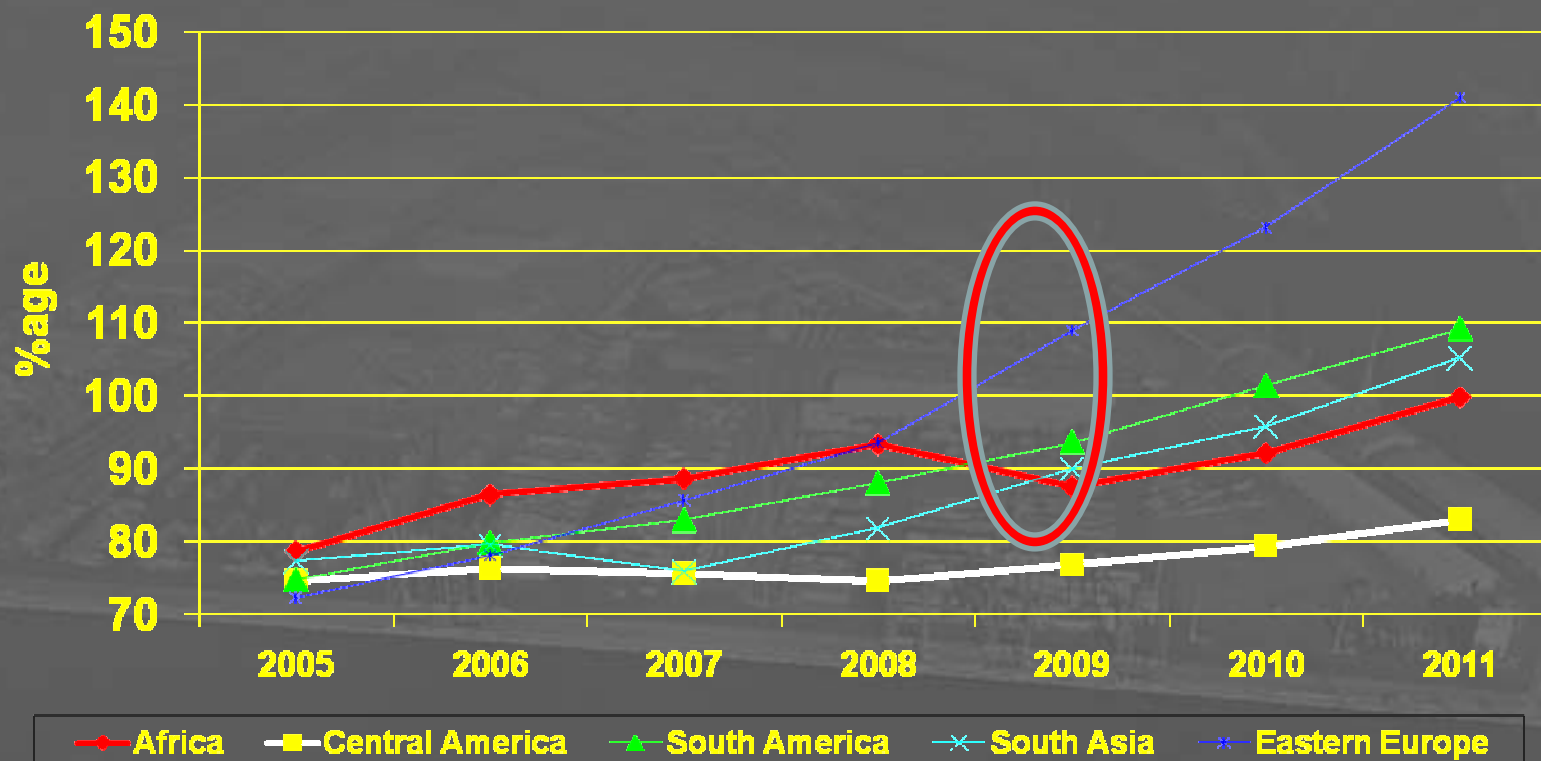
- Global trade growth:
- Logistics & Global Carriers:
- Increasing Ship size:
- Political & social constraints:

Impact:

- Expansion & modernisation of infrastructure requires massive capital, release of tied up equity in port properties
- Vertical integration of 3PL's, global carriers in logistics chains = shift from local>regional> global; larger chains need more property.
- Requires deeper reach into the hinterland for financial viability, greater integration of logistic chains and specialised real estate facilities.
- Congestion & contamination requires reduced truck traffic, transfer non throughput activities off port, higher throughput and velocity.



Forecast average capacity utilisation – emerging nations: Even adjusted down by 20% still is 70%: time to stop planning?



Note: Excludes unconfirmed capacity additions

Source: Drewry Shipping Consultants Ltd


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Invest in both the 'hardware' and 'software' of logistics

LATIN AMERICAN CHALLENGES



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Logistics challenges faced by Latin America

- Vast geography – larger than the US
- Underdeveloped transport infrastructure
- Concentration of population 200 km's from the coastal areas
- Major hinterlands dispersed eg, Mexico City, Sao Paulo, Lima, Buenos Aires
- Lack of economic integration
- Security and cheap labour challenge supply chain development



Developing effective supply chains in Latin America

- Look at ports as interchangeable links in system; not independent components – the ‘nexus’ of the transport network? Regionalisation?
- Port development needs to be ‘holistic’ ie, concurrent with logistics, regional distribution systems, ‘value added services and ‘market dictated’ balancing of port and terminal capacity.
- Note that investment in infrastructure and capacity expansion doesn’t guarantee throughput; yet the lack of it will guarantee the absence of growth.
- To accomplish this ports will need to become adept at securing the private sector’s capital and know how for infrastructure development. The Chinese model of Sinotrans?



Why logistics, transport and port development is critical to Latin America

- ‘If infrastructure is the hardware of a productive nation, then logistics services is the software that drives it.’¹
- Lack of transport infrastructure in LA results in uncompetitive position for most LA companies due to slower turnover of goods and requiring higher capital reserves.
- The world has reduced logistics costs since 1980; LA’s has risen.

1. The State of Latin American Infrastructure and Logistics, Latin American Logistics, www.latinamericanlogistics.org



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Why logistics, transport and port development is critical to Latin America

- ‘The World is Flat’; developing countries who trade freely grow their GDP and reduce poverty faster than those who don’t. To do this requires:
 - Adoptable technology and low cost mfg centres(which now can be amortised in 5 years).
 - Reliable, low cost transport as an imperative to obtain and increase a country’s competitive advantage.
 - Reducing the ‘tax’ on the private sector with tying up capital with slow turnover times of inventory.

1. The State of Latin American Infrastructure and Logistics, Latin American Logistics, www.latinamericanlogistics.org



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Expanding deeper into hinterlands requires land

EVOLUTION OF PORTS



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Ports: now 'just' important nodes in expanding global supply chains

- 'Just in time' has given way to '**integrated time**', requiring more entry points and specialised facilities such as 'fast buildings'.
- Within developed markets' supply chains until recently **weakest link were ports** and their inability to process more throughput and increase capacity.
- Ports need to take on **role of leader in the transport sector** (logistics is well taken care of).
- **Port property** and its management key to addressing these issues.



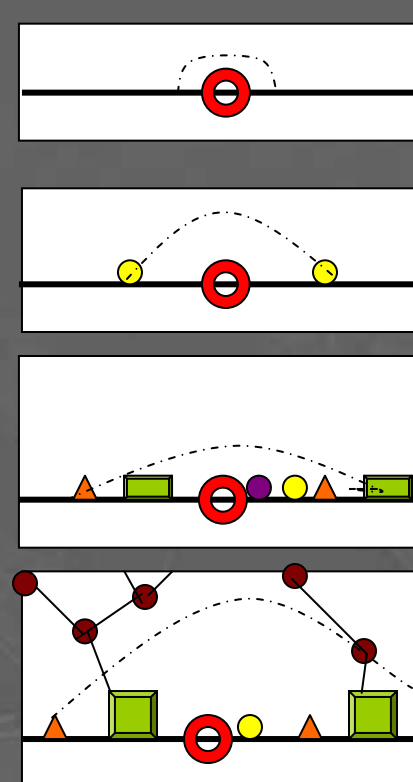
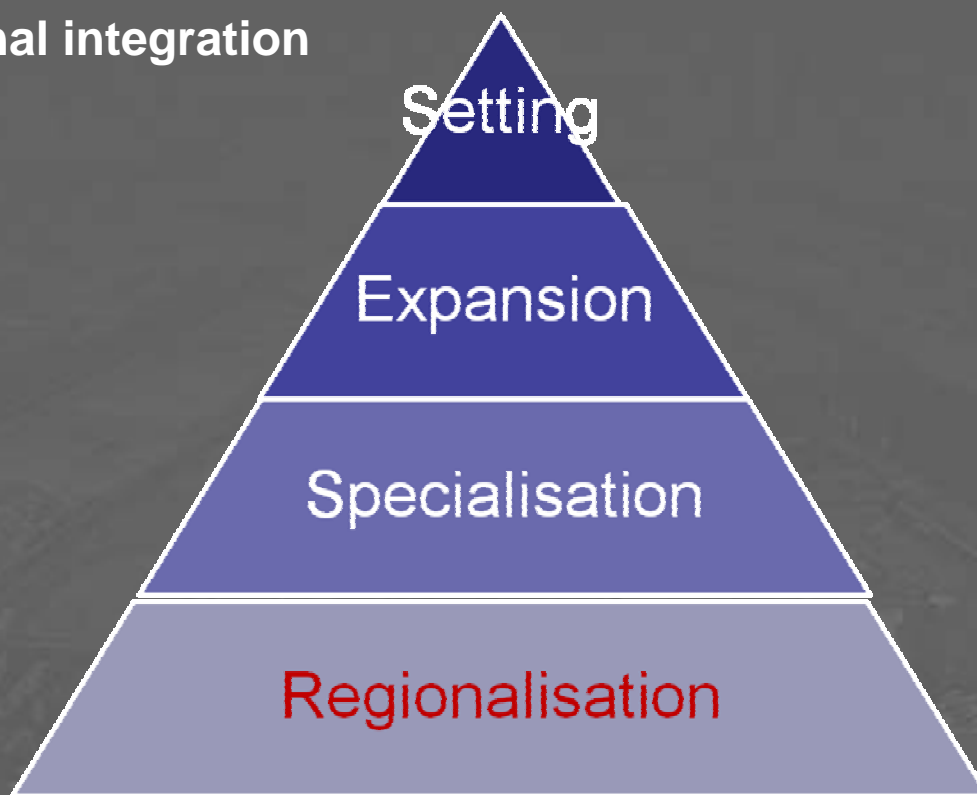
Regionalisation

- Ports must integrate into new freight paradigm – major impact on land usage
- Inland distribution cost - now major savings area not over water but, major challenge in Latin America
- Constraints (political, ecological, economic) will force hinterland expansion and access for city ports
- 3PL heavy users of real estate facilities and the new power players



Regionalisation: heavily dependent on property

Level of
functional integration



land

sea

Evolution of a Port

James Bird, Anyport, Notteboom, TE,
Rodrigue, J P, Port Regionalisation:
Towards a New Phase in Port
Development, Maritime Policy &
Management, 2005



Port



Container



Bulk



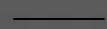
Freight dist centre



General cargo



Reconversion



Freight corridor



Urban area



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Regionalisation:

- Corridors and inland terminals – cornerstones to port regionalisation. A way to increase comp adv for ports using inexpensive backlands
- Inland ports: critical in maintaining major seaport efficiency and competitive advantages (eg velocity/productivity) to reach major hinterlands
- All of which is heavily dependent on strategic usage and management of port and nearby land banks .



(excerpts from: Notteboom T E, Rodrigue J E, 2005 (revised), Port Regionalization: Towards a New Phase in port Development, Maritime Policy & Management
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For development expansion and modernisation

NEED FOR CAPITAL



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Terminal capacity

- Strong focus on optimising the capacity of existing terminals due to lack of land with such concepts as dry and inland ports, intermodal facilities
- Greenfield and brownfield terminal development face many obstacles (e.g. legal, environmental etc)
- Demand side of the equation quick to react/dynamic, capacity side generally very slow due to massive capital requirements and planning time frames





Common thread, underpinning element and part of the solution

PORT PROPERTY



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Direct private investment versus PPP - an example

Charleston, South Carolina:

Enhancing a port's reach, competitive advantages and core business without using government or port capital.



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Charleston South Carolina – Emerging US Market



Challenges:

- Port of Charleston is a major Eastern seaboard port with no on or near dock intermodal capability.
- PoC losing throughput the last four years.
- East Coast ports need to prepare for Panama Canal widening.
- South Carolina or the port lack funds.



Opportunities:

- Strategically located parcels exist for the development of major on and near dock intermodal facilities.
- PoC has major competitive advantages such as depth, shortest distance to sea buoy and two class 1 rail roads.
- Major investment group interested in developing specialised maritime logistic facilities.



Solutions:

- Identify market needs and quantify them.
- Structure business model; identify potential revenue streams.
- Address stakeholder needs in the community, PoC, port cluster clients.
- Address 'strategic alliance' participants', such as railroads, needs.



Charleston Development Site

- 110 acres between Port of Charleston's new Navy Terminal (1.5M TEU est. +/-) and major underutilised rail yard.
- Originally planned as a 'Big Box retail development' eg, hypermarkets.
- Strategic intermodal location impossible to replicate.



Private intermodal facility challenge

- Pioneering project: first privately owned, built and managed intermodal facility in the US which is on or near dock - typically controlled by ports or railroads and operated as cost centres as strategy to increase throughput.
- Remain competitive from a pricing standpoint and produce attractive returns of and on capital. In effect be a 'port within a port'.



Advantages to Port

- Major competitive advantage to better retain, attract and serve clients in a very competitive market.
- Potential future line haul service direct to Midwest/Chicago.
- 300,000 TEU on rail in 2015 (post Panama Canal widening); 500,000 TEU in 2020.
- No investment required by port.
- Biggest positive ecological impact to port and community by removing the aforesaid TEU off the roads.

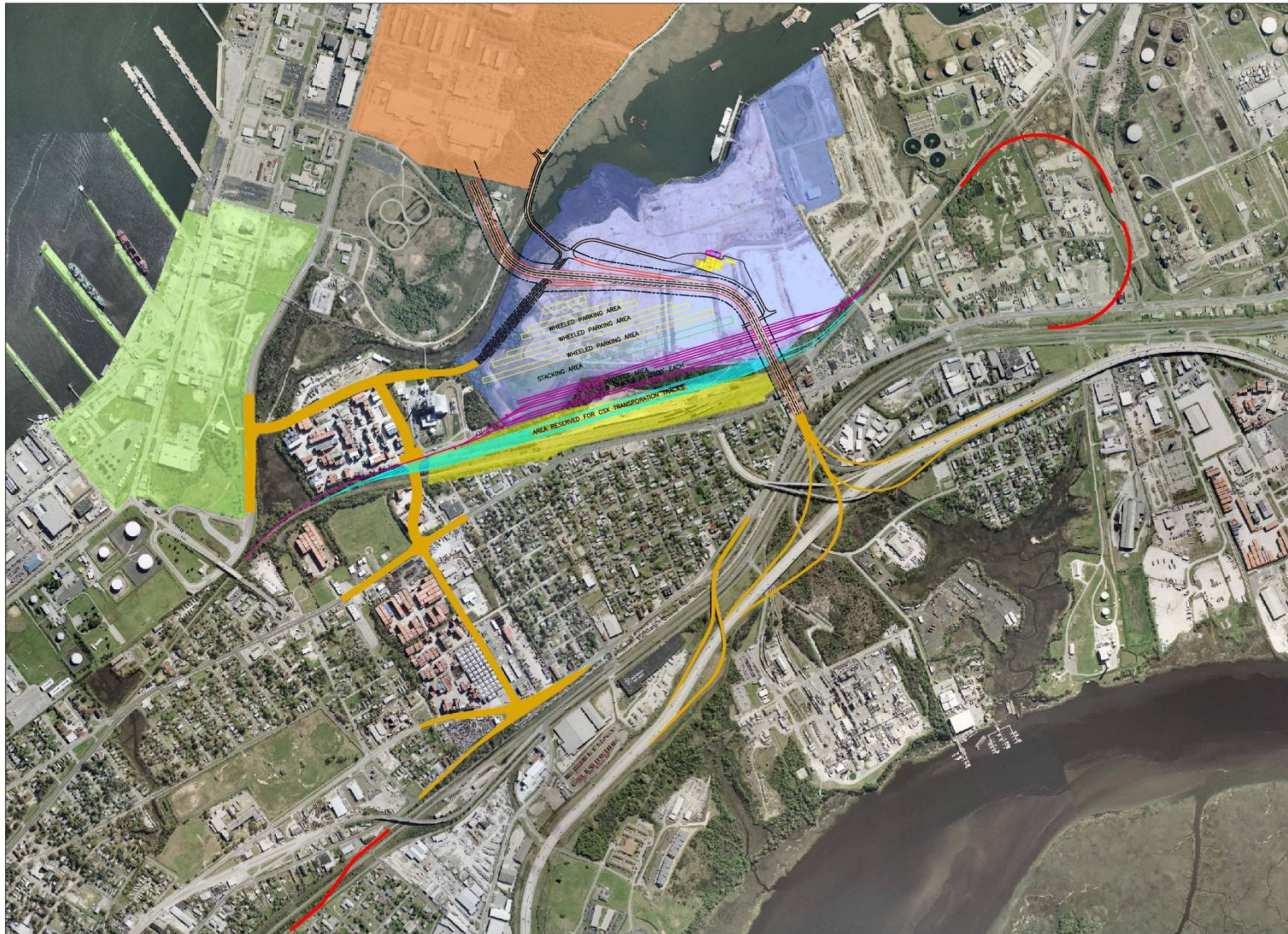


Advantages to investors

- Attractive long term Return on Investment, difficult to replicate now or in the immediate future.
- Critical mass of investment ie, US \$175M +/- total required.
- Diversification of investment portfolio risk from traditional property investments
- Investment well matched to pension fund holding time frames.



Macalloy Intermodal Site Charleston South Carolina



Access Road Realignment
Bridge Alternative

SCALE: 1"=400'-0"
March 11, 2008



Ready, steady, go?

THE 'CUBA FACTOR'



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Cuba's Ports



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Cuba's Ports

First tier:

- Habana
- Cienfuegos
- Santiago de Cuba
- Antilla

Second tier:

- Mariel
- Matanzas
- Isabela de Sagua
- Nuevitas
- Felton
- Manzanillo
- Nueva Gerona



Cuba – strategic advantages

- **Location:** strategically located - no deviation from major trade routes
- **Cost:** major cost advantage compared to Jamaica and Panama (PR barred by Jones act)
- **Hinterland:** largest Caribbean hinterland – 13M, who haven't imported anything in the last 45 years
- **Depth:** natural ports with deep water; one greenfield site with purportedly 200m.



Cuba - Challenges

- **Infrastructure:** similar to a 1970's Third World country eg, Habana has two key cranes, only one operating until it was repaired (1996)
- **BUT:** this lack of infrastructure may turn out to be an advantage; think Germany and Japan after WWII



What might happen from a trade standpoint?

- Puerto Rico could be an example ie, transshipment from there to Jacksonville and Miami during the last several decades; but this is now changing as well.
- Feeder transshipment node to the Gulf ports?
- Will American ports allow anything transhipped from Cuba though?

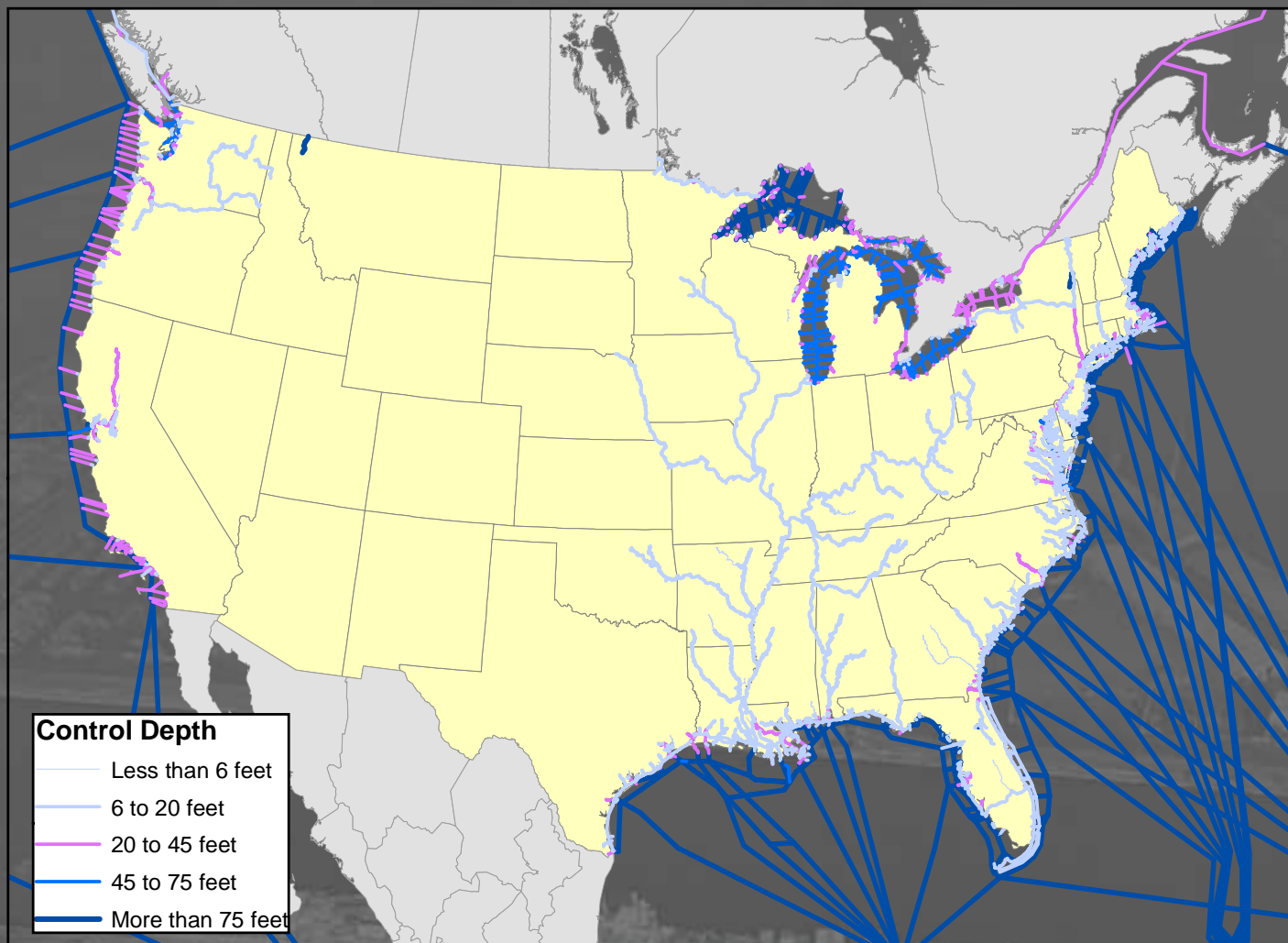


But what about the changes in the industry taking place?

- Consolidation of ship size from 4.5k TEU to 8.5k TEU due to massive scrapping taking place.
- Increase to larger ships by lines – 10k TEU to 12.k TEU, requiring 2 to 3 stops & the expansion of East Coast US ports, limiting transshipment?



Cuba: transshipment port to Gulf ports?



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But, there is a possible alternative role

- Major strategic issue facing major lines: How to service secondary trades? An opening for Cuba?
- Transport must be through a node; currently it is Panama (balboa and Cristobal). Could it become Cuba in the future?



Which economic model will Cuba follow?

In my opinion:

Vietnam



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Now for something totally different:

What caused the political union of Great Britain?

- England?
- Scotland?
- Panama?



Never underestimate the Scots

- Scotland bankrupt in 1699, Darien Scheme last chance for independence
- Darien pass (today Panama Canal) was to be their ace, the trade route to Asia
- Scotland bets their future on the Darien Scheme, turns into the 'Darien Fiasco'
- England offers to pay off debt if they unite, Scotland agrees as there is no hope for independence left.
- Scotland's Renaissance starts and Scots decide to 'out English the English'
- Today, they control major UK businesses and the realm of politics: Blair, Brown and Cameron.



Never underestimate the Cubans

- They know how to import knowledge
- They are resourceful eg,
 - Miami 1959: A village with electricity.
 - Miami 2009: A very big, international village with electricity, built for the most part by Cubans.
- Cuban Americans: arrived with nothing and became the most successful immigrants in the shortest period of time in US history.



Conclusion

It's all about the land!



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Aegir Port Property Advisers

+1 305 423 7711

+1 305 423 7712 F

www.aegirports.com

info@aegirports.com



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