Lessons learned in port real estate purchasing, development & leasing – reasons why and two examples respectively©

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Challenges facing port authorities

- Port Authority's (PA) role in developing hinterland access
- PA real estate development example: Demand from clients for specialised real estate facilities but no capital to deliver them with – accessing private sector's capital
- Port real estate facilities leasing issues – what's it really all about

Why and How?

PORT AUTHORITY'S ROLE IN DEVELOPING HINTERLAND ACCESS

PAs' emerging role in the hinterland

- In the 'Sea – Land' equation the land side now the key to compressing supply chains – why?
- Expanded hinterland coverage resulting in ports being more competitive, less oligopolistic (Notteboom, 2008)
- Competition now between supply chains and logistics corridors – not ports eg, more cargo through fewer ports in NA; therefore ports compete for hinterlands
- Ports need to increase throughput/capacity on same footprint – move non operational activities inland

PAs' emerging role in the hinterland

- Big ships demanding deeper hinterland reach, ports need to deliver – terminal operators increasingly becoming 'door-to-door' logistics providers
- Intermodality is a key to deeper reach
- Clients demand reliability and capacity balanced with cost

Port Authority's emerging role

- Now operate as 'for profit' entities, responsible for raising their capital needs
- From operator to asset manager with property being their main asset
- PA's address four main functions (de Langer, 2008):
  - Traffic
  - Area
  - Customer
  - Stakeholders AND…

Integrating port/terminal to supply chains

- Important parameters contributing to integration of port/terminal to supply chains (Song and Panayides, 2008):
  - Technology
  - Value added services
  - Relationships with lines and clients
  - Facilitation of intermodal transport
  - Channel integration practices

    (blue denotes land intensive activities)

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Ports – now nodes in ever expanding/integrating global supply chain

- Within present supply chain a weak link - ports' inability to process more throughput faster
- Logistics very efficient industry, excellent leadership; transport is fragmented, no clear leader - vacuum needs to be filled, should port authorities step in?
- 'Just in time' now 'integrated time', requiring more specialised facilities such as 'fast buildings'
- Property at, near and related to ports is key to addressing these issues

Port Authority's emerging role

- Becoming the nexus/leader of hinterland transport (versus logistics) to create more efficient hinterland infrastructure and supply chains (to increase throughput at quayside)
- Therefore ports (or the private sector for them) will increasingly be investing in extended terminals and inland logistics infrastructure such as…

Port Authority	Project	Objective
Los Angeles/Long Beach	Alameda Corridor	Decongestion at terminal
Barcelona	Rail, Terminal Maritima	Deeper access; inland terminals to capture mkt share
Rotterdam	Transferium	Barge intermodal 40 kms away from port
Antwerp	Trilogiport	100 ha logistics platform
Marseilles	Lyon inland port	Develop Lyon as Marseille's multimodal satellite
Lisbon	Puerta del Atlantico	Logistics platform outside Madrid

Source: PA's websites, trade journals, Notteboom, 2008

PA’s evolution

- PA’s must look beyond being an asset manager within the port confines
- Must now actively look where it can facilitate their respective supply chains and logistics corridors through facilitating them and direct infrastructure investment (de Langen, 2008)
- Such investment in time, knowledge and capital leads to **growth in two main revenue drivers:**

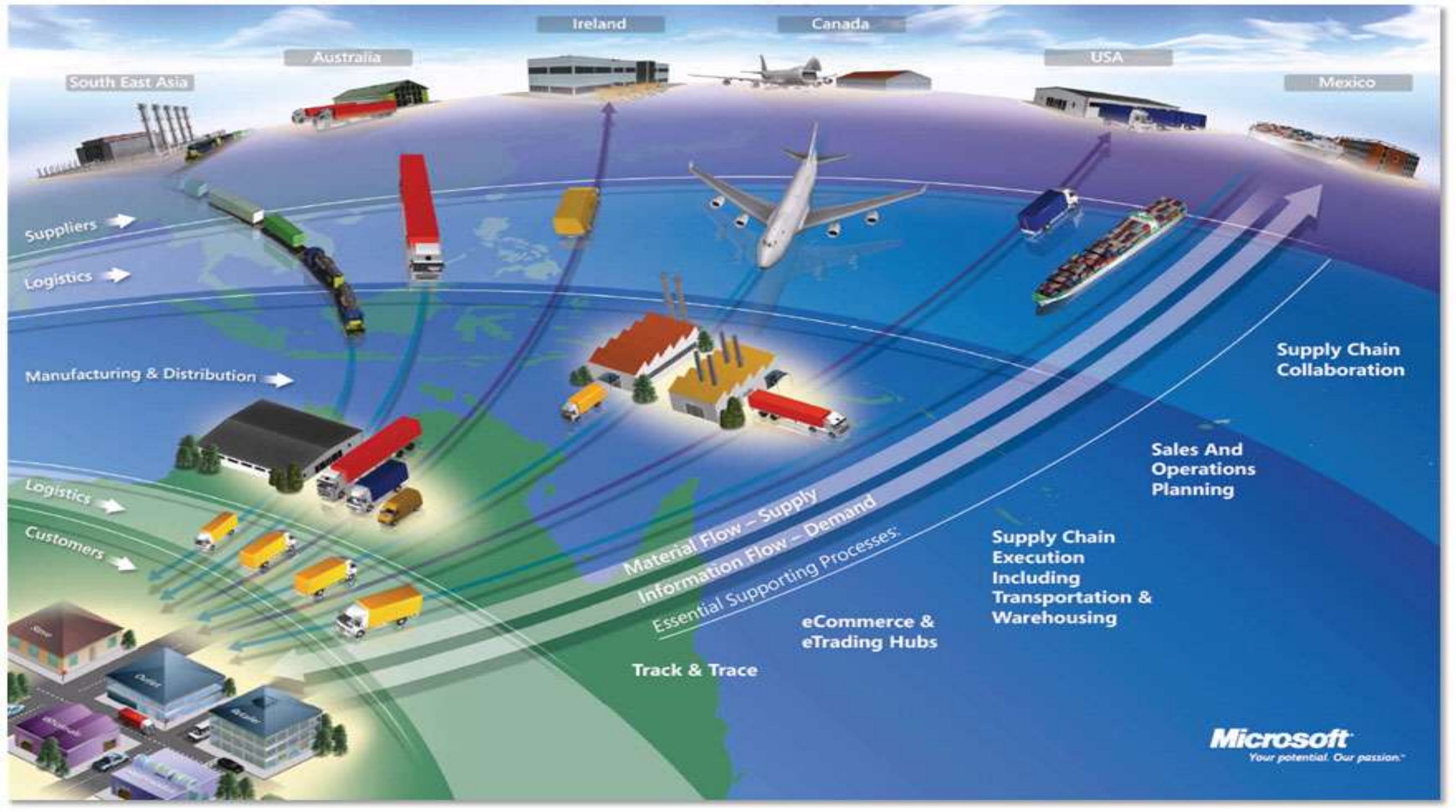
- Land values **- Throughput**

And both are intrinsically intertwined

PA's – natural transport leaders

- Why PA's are natural transport leaders for logistics chains (Notteboom, 2008):
  - Investments in logistics poles benefits all users, regardless of who invests or not (resulting in freeloaders). PA's through throughput charges can more equitably invest infrastructure
  - PA's can manage port communities and clusters to create more efficient, broader, competitive regional load centre
  - PA's can better manage environmental constraints
  - A better managed logistics pole and inland facilities guarantee PA's that they will maintain their competitive advantages as well as competition within supply chains
- But all will require even more land…

The supply chain –
each step is heavily property reliant



So, which link in the supply chain will your port become, this?

Or this?

It's all about the BIG PICTURE…

HOW PORT AUTHORITIES CAN CREATIVELY ACCESS PRIVATE CAPITAL – AN EXAMPLE

Port property – port's new strategic asset

- 8,000 TEU ship requires 99 acres to keep container flow inbound smooth; most large ports are land constrained
- Throughput per acre is key to making customers money and satisfied eg, in US about 4,000 – 5,000 TEU/acre yet in Europe and Asia 10,000 TEU/acre and higher is not unusual
- Therefore: PA's will need to acquire/control land banks inland to facilitate processing throughput and addressing value added functions increasingly required y clients

Caribbean transhipment port – 'highest and best' use study for logistics park

- Challenges: no capital in budgets, national economic conditions dismal
- Opportunities: Market demanding specialised logistics park facilities and services; regional pension fund could be available with proper structuring

Economy has had contraction for 16 quarters

Leading economic indicators for property:
Source: Global Finance and IMF

Year	2001	2001	2003	2004	2005	2006	2007	2008	2009	2010	2011
Real GDP growth	1.3%	1.0%	3.5%	1.4%	1.1%	3.0%	1.4%	-0.9%	-3.0%	-0.1%	1.8%
CPI/ inflation								22%	9.6%	12.7% (est)	5.8% (est)
Unemploy-ment								10.6%	12.5%	12.5% (est)	11.5% (est)
Public debt as a % of GDP								120%	134%	135.7% (est)	131.6% (est)


Proposed Logistics
Park
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High Level Financial Evaluation –

	Scenario 1 PA (per cent)	Scenario 2 Aegir/Drewry (per cent)	Scenario 3a Alternative (per cent)	Scenario 3b Alternative (per cent)
Land Use Proportions Infrastructure	23	20	20	20
Office	21.6	18.9	18.9	21.6
Promotional	32.4	0.0	0.0	32.4
Logistics	46.0	81.1	81.1	46.0
Developers Cash Yield Office	11.0	11.2	11.2	11.2
Promotional	5.3	0.0	0.0	5.3
Logistics	6.5	6.5	6.5	6.5
Total	7.4	8.6	8.6	7.4
PA Cash Yield	6.4	5.9	9.2	9.8

Note: Cash Yield is the annual net income deriving from the facility expressed as a per cent of total development cost. In current markets developers would be looking for a yield exceeding 8%.

Solutions

- Building promotional facilities will not lead to increased logistics activity. Primary logistics including light manufacture and assembly is the substantive market.

- Given likely restrictions on government capital funds will most certainly require hybrid public – private development model.

- Success will require a unified development body (ie, PA) to provide a one stop shop for working with potential development partners and end customers.

- The Site is very favourably located and has a potentially large advantage if the immediate adjacency to the port can be exploited. This is compromised by the intersecting highway.

Solutions

- Access by bridge or tunnel required if the Site is to be integrated fully with the terminal to gain the full advantages of port centricity.

- High level financial analysis suggests favourable returns can be made for developers provided international standards of primary logistics development density are adopted. These can be improved by accessing the office market for part of the development, but this market could easily be swamped.

- Adequate returns for the Port Authority will be dependent on the cost of the bridge/tunnel access which needs to be quantified professionally and the amount of land rent which could be charged. Alternatively, other sites adjacent to the terminal could be considered if they can be made surplus to terminal development requirements.

The need to reflect reality…

STRUCTURING LEASES FOR SPECIALISED PORT REAL ESTATE FACILITIES

What should be in a lease?

Costs

- Cost of capital, risk?
- Inflation?
- Capital sinking fund for renovations, infrastructure recapture?
- Repair & maintenance?
- Operating, insurance costs eg, common area maintenance, security, electricity?

Revenue

- Return on investment?
- Return on equity?
- Landlord profit?
- Demand/supply balance?
- Throughput charges?

Without consideration of the above are you really making any money?

Conclusion

The future of you port lies inland

AND

IN – LAND!

'Navigating the World of Port Properties –
To Maximise the Value of Ports'

Thank You

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