AAPA Marine Terminal Management Training Program

Terminal Lease Negotiations

Achieving Mutually Beneficial Outcomes

Bruce E. Cashon, SVP & CCO
Ceres Terminals Incorporated
Long Beach, CA
October 20, 2011

Case Example Background

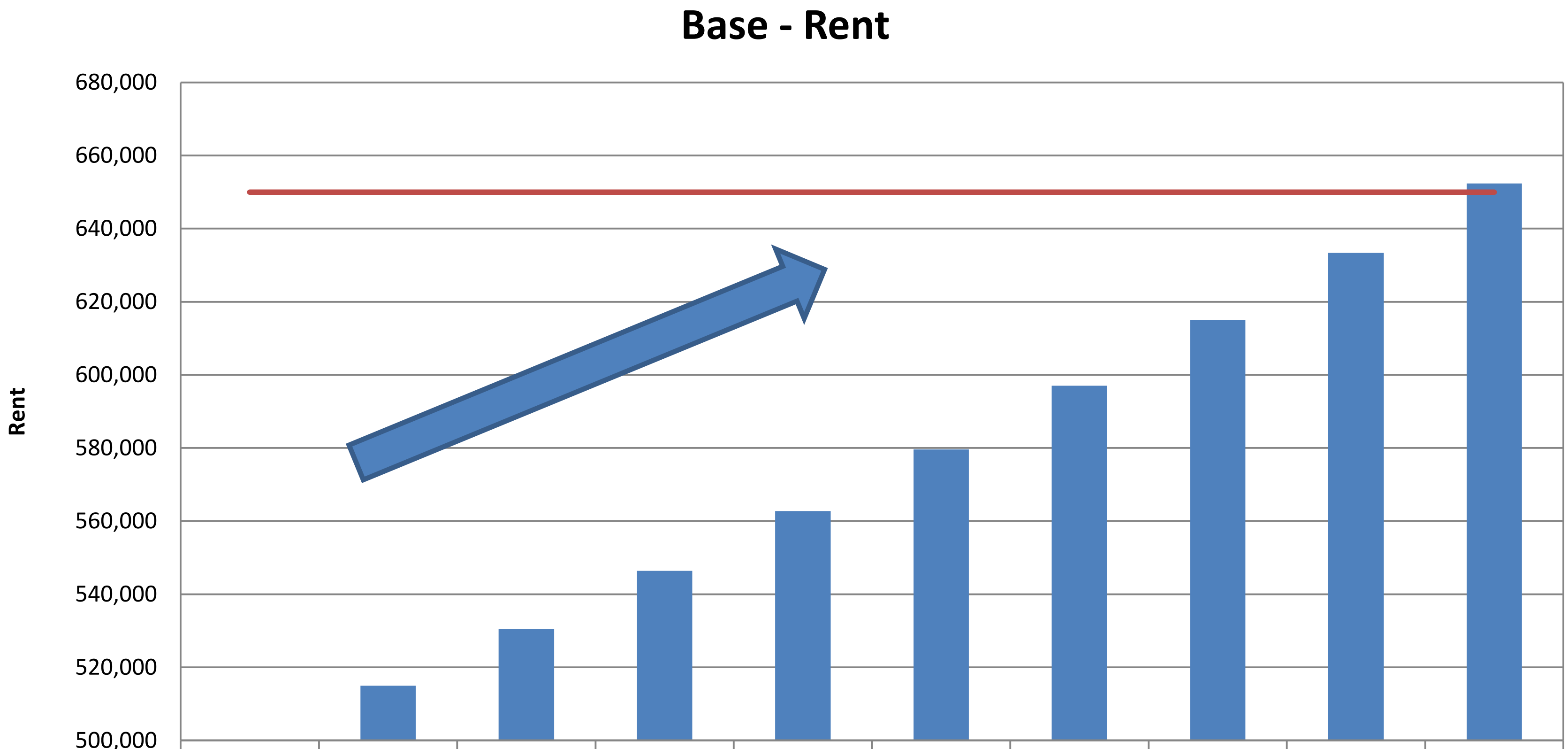
- Small container terminal Eastern region
- Niche port but clear growth opportunities in certain cargo sectors
- Suitable rail/intermodal links to So East-Mid West and strong export potential
- TO is stevedore/carrier jv with control over discretionary volumes

Initial Lease

- Stevedore held lease prior to formation of jv
- Base rent guarantee plus a throughput fee
- Initial capex/terminal development by PA
- 3 x 5 year terms
- Original terminal area approx. 30 acres – additional parcels added at monthly rates
- Cost per box escalates each year at flat growth

Base Rent Plus Volume Throughput Fee

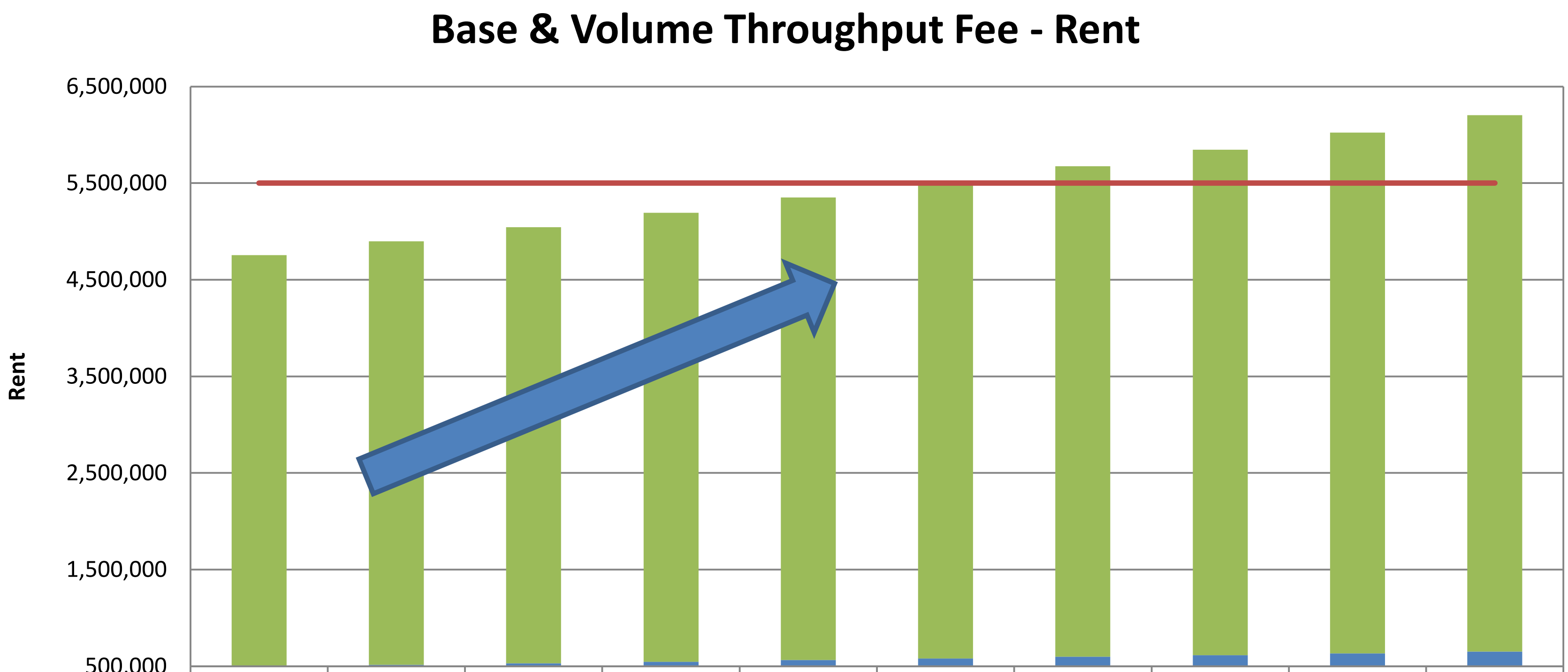
Flat Volume growth



	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Base Rent	$500,000	515,000	530,450	546,364	562,754	579,637	597,026	614,937	633,385	652,387
Volume	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000

Base Rent Plus Volume Throughput Fee

Flat Volume growth



	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Thrput Fee	$4,253,521	$4,381,323	$4,512,763	$4,648,146	$4,787,590	$4,931,218	$5,079,154	$5,231,529	$5,388,475	$5,550,129
Base Rent	$500,000	515,000	530,450	546,364	562,754	579,637	597,026	614,937	633,385	652,387
Volume	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Per Box $	$31.69	$32.64	$33.62	$34.63	$35.67	$36.74	$37.84	$38.98	$40.15	$41.35

Existing vs Desired

capacity evaluation projected at 230,00 moves basis
consolidated footprint and modest equipment enhancement

Existing Terms Conditions

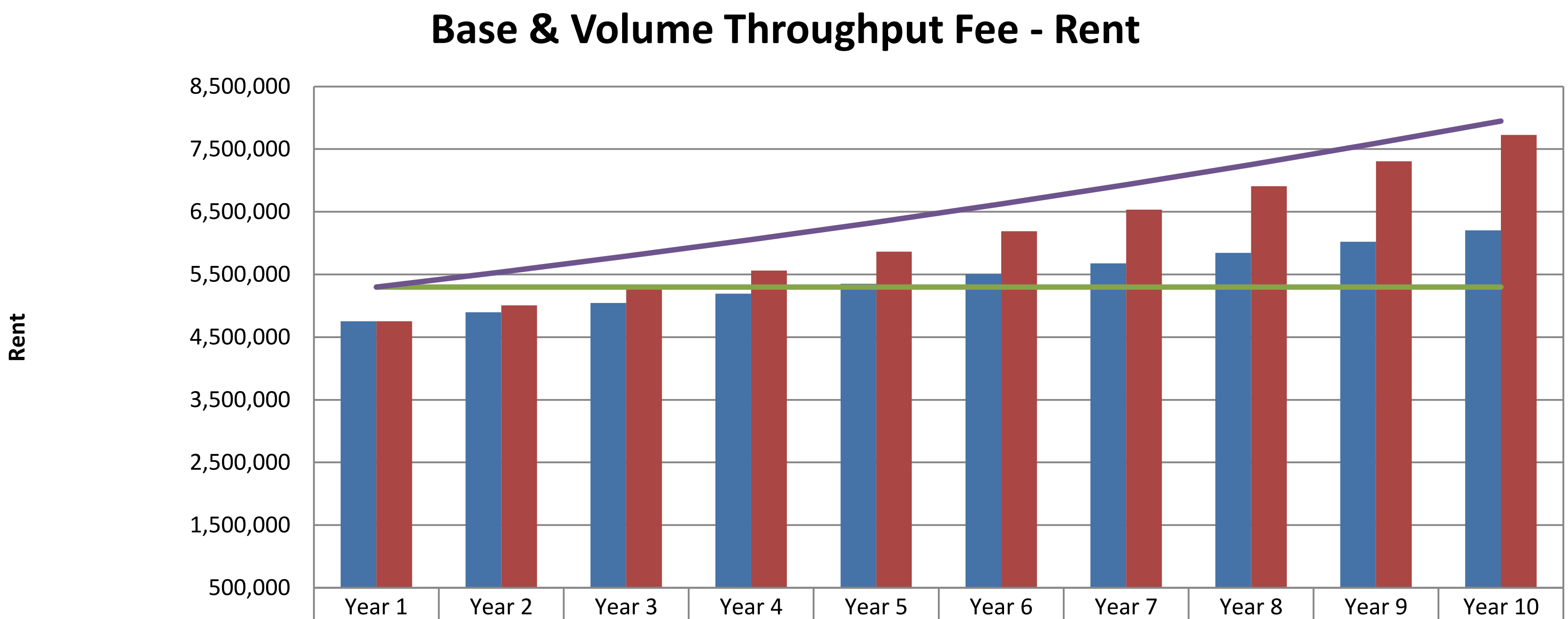
- End of first 5-yr term with 5-yr option
- Several separate parcels/rates/terms
- Minimum base rent plus a throughput fee per container volume tiers
- No incentive to TO to grow
- Cost increases per box even with modest volume growth

Desired Terms Conditions

- Extend to 10 yrs with 10-yr renewal option
- Consolidate parcels to master lease
- Flat fixed rental rate for entire parcel per year
- Internal improvements done by TO
- Reduce cost per box with volume

Base Rent Plus Volume Throughput Fee

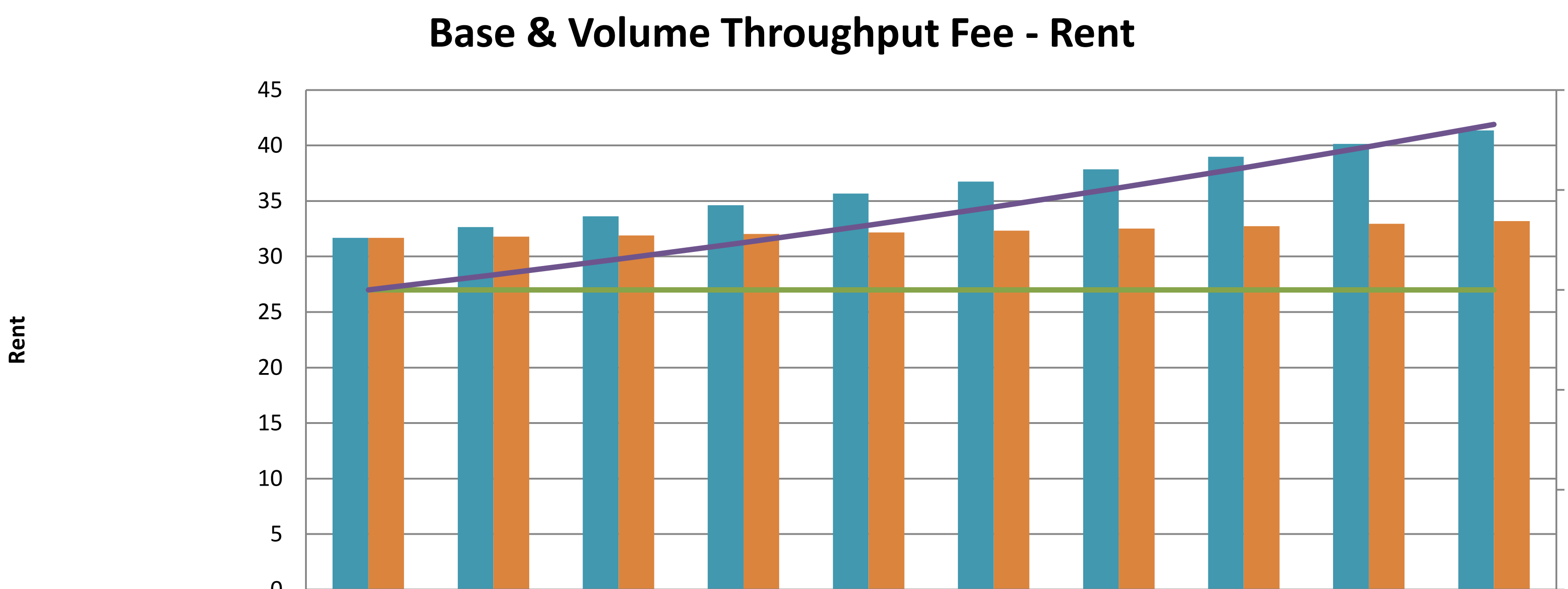
Volume growth 5% annually



	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Rent no Volume grth	4,753,521	4,896,323	5,043,213	5,194,509	5,350,345	5,510,855	5,676,181	5,846,466	6,021,860	6,202,516
Rent w Volume growth	4,753,521	5,005,492	5,273,736	5,559,997	5,864,758	6,190,067	6,536,643	6,907,230	7,303,569	7,726,601
Flat Volume	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Volume 5% growth	150,000	157,500	165,375	173,644	182,326	191,442	201,014	211,065	221,618	232,699
Cost per Box (flat)	$31.69	$32.64	$33.62	$34.63	$35.67	$36.74	$37.84	$38.98	$40.15	$41.35
Cost per Box growth	$31.69	$31.78	$31.89	$32.02	$32.17	$32.33	$32.52	$32.73	$32.96	$33.20

Base Rent & Volume Throughput Fee

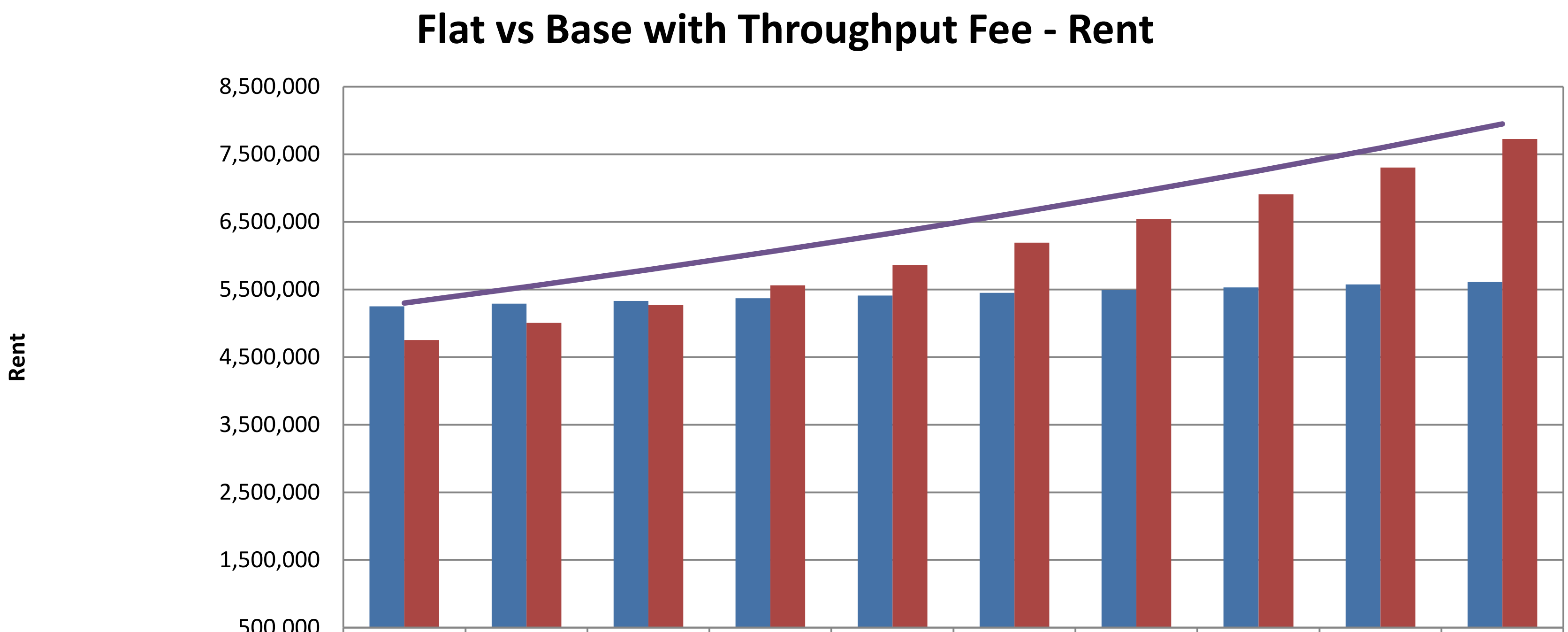
Volume growth 5% annually



	1	2	3	4	5	6	7	8	9	10
Cost/box (flat volume)	$31.69	$32.64	$33.62	$34.63	$35.67	$36.74	$37.84	$38.98	$40.15	$41.35
Cost per Box growth	$31.69	$31.78	$31.89	$32.02	$32.17	$32.33	$32.52	$32.73	$32.96	$33.20
Flat Volume	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Volume 5% growth	150,000	157,500	165,375	173,644	182,326	191,442	201,014	211,065	221,618	232,699
Chg in volume	0.0%	5.0%	10.3%	15.8%	21.6%	27.6%	34.0%	40.7%	47.7%	55.1%
Chg in Cost per box	0.0%	-2.6%	-5.1%	-7.5%	-9.8%	-12.0%	-14.1%	-16.0%	-17.9%	-19.7%

Fixed Rent – No Throughput Fee

Volume growth 5% annually



	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Flat Rent w growth	$5,250,000	5,289,375	5,329,045	5,369,013	5,409,281	5,449,851	5,490,725	5,531,905	5,573,394	5,615,194
Thgput Feew Volume grth	4,753,521	5,005,492	5,273,736	5,559,997	5,864,758	6,190,067	6,536,643	6,907,230	7,303,569	7,726,601
Volume 5% growth	150,000	157,500	165,375	173,644	182,326	191,442	201,014	211,065	221,618	232,699
Cost per Box (flat rent)	$35.00	$33.58	$32.22	$30.92	$29.67	$28.47	$27.32	$26.21	$25.15	$24.13
Cost per Box thru put fee	$31.69	$31.78	$31.89	$32.02	$32.17	$32.33	$32.52	$32.73	$32.96	$33.20

So why would the PA do this?

- TO jv commits to longer term plus extension option with advance notice requirement
- PA receives higher annual minimum guaranteed revenue
- TO partners on some capex improvements
- Creates incentive for TO/carrier to bring more volume which = increased wharfage, increased crane rental hours, increased man hours working vessels/terminal (payroll/local taxes contribution), increased rail/trucking (increased local tax contribution), increase ancillary employment and regional economic impact/jobs