American Association of Port Authorities

PORT OF CLEVELAND

Cleveland – Cuyahoga County Port Authority

Lessons Learned in Port Real Estate

April 19, 2012

Overview

- Background on Port of Cleveland
- Port-related assets and associated challenges
- Non-core assets and opportunities
- Results of a real estate focused strategy
- Future offerings

Background on Port of Cleveland

- Created in 1968 by ORC 4582
  - Broad powers
- 9 Board Members
  - 6 by Mayor of City of Cleveland
  - 3 by County Executive
- Landlord model

- Business Lines
  - Traditional Port operations
    - Highly volatile
  - Regional Finance Authority
    - Difficult to predict
  - Strategic real estate acquisitions
  - Harbor infrastructure manager

Maritime Holdings

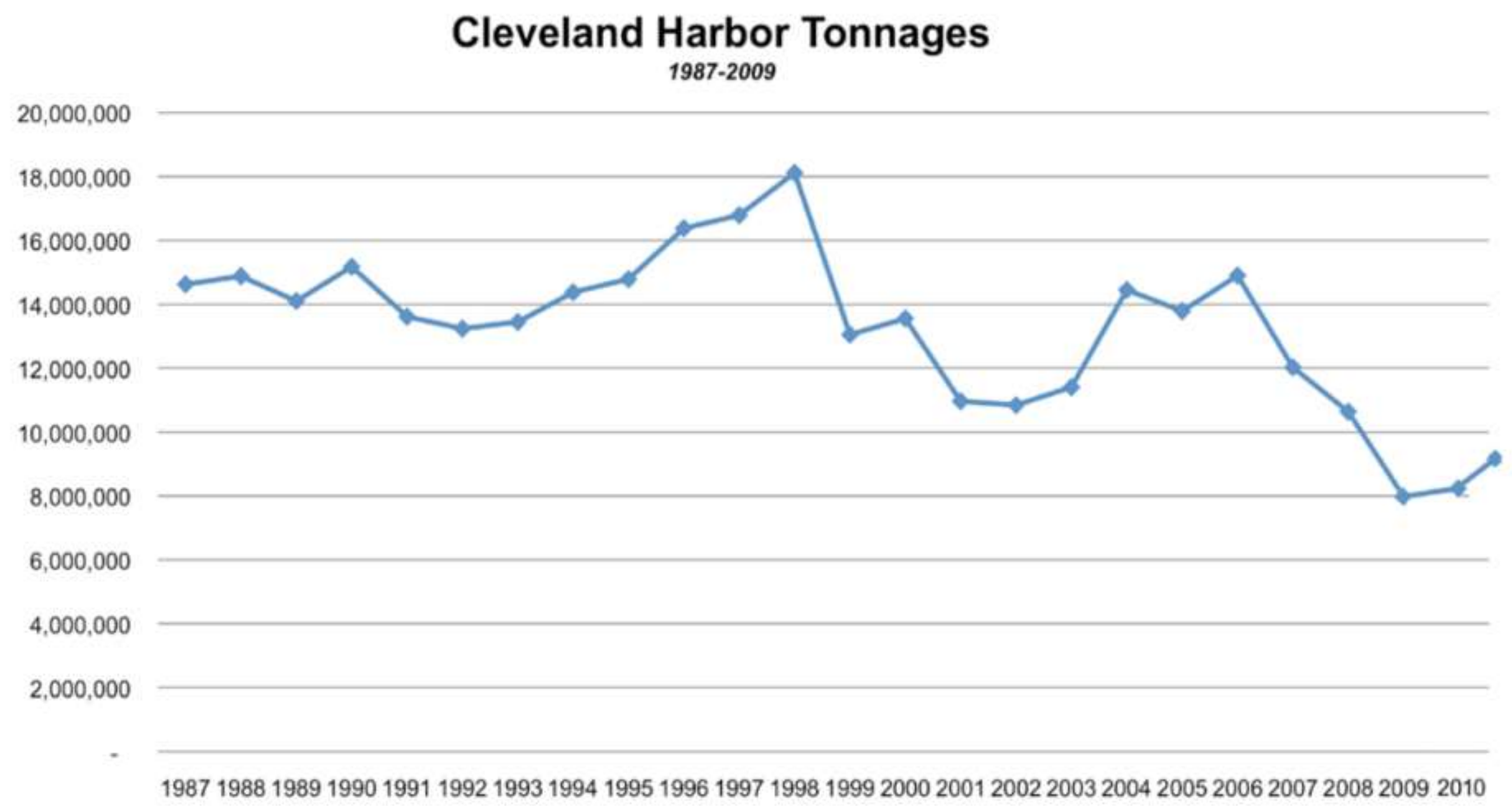
- 150 Acres of Waterfront Property
  - 37 lease from City of Cleveland
  - Remainder owned by POC
- 350,000 sq feet of warehousing space

- 4 main terminal operators
  - Ore/Cement
    - Long-term concessions
  - Steel/Project cargo
    - Renewed annually

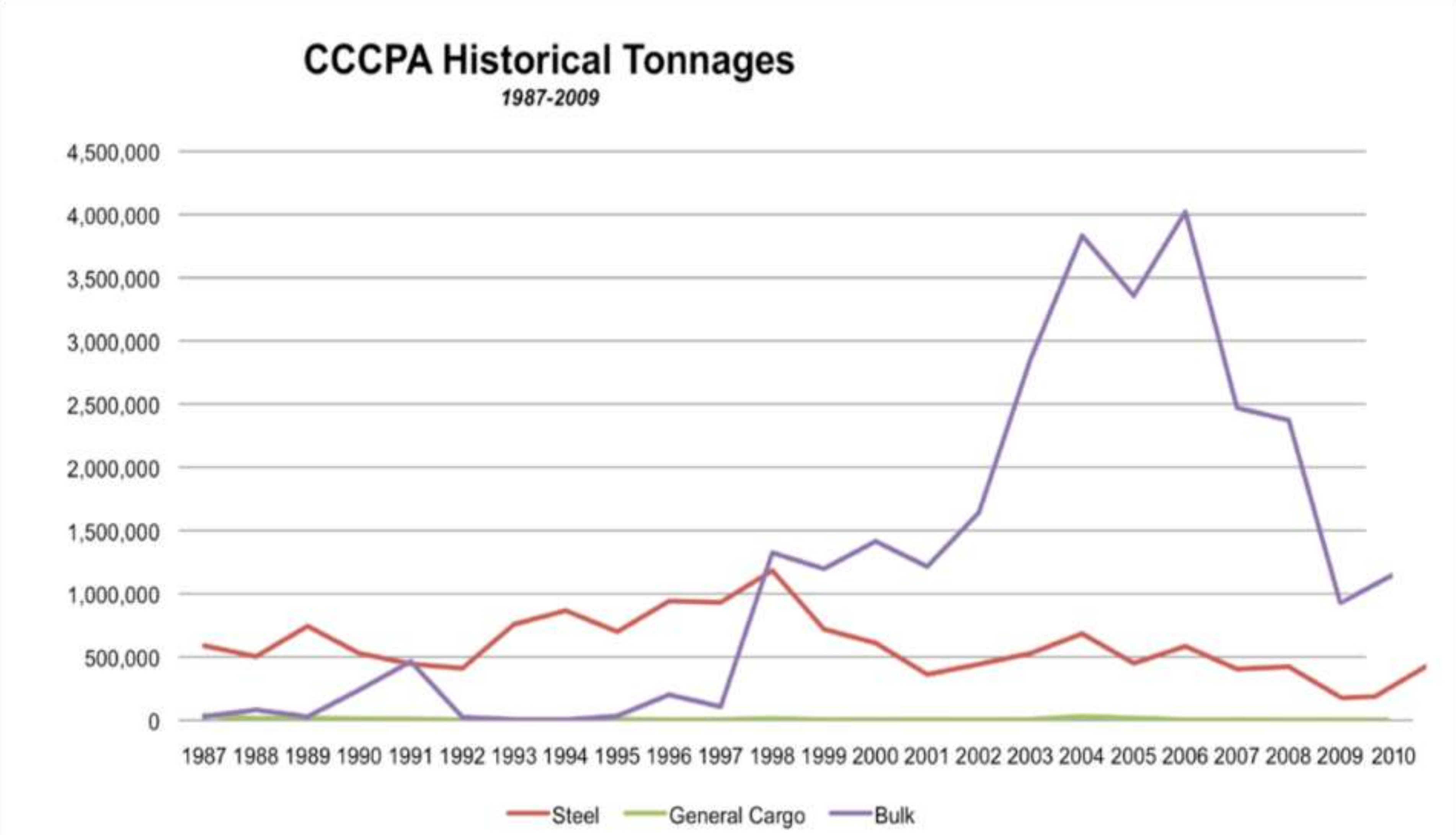
Great Lakes Dynamics

- Few players on the Lakes
- Little new investment
  - Ballast water
  - Invasive species
  - Dredging
- Midwest economic growth stagnant
- High property taxes
  - Leases > 1 year require property taxes
- 2007 – shift to more cargo dependent lease model
- Continued land use pressures

Historical Tonnages



Historical Tonnages



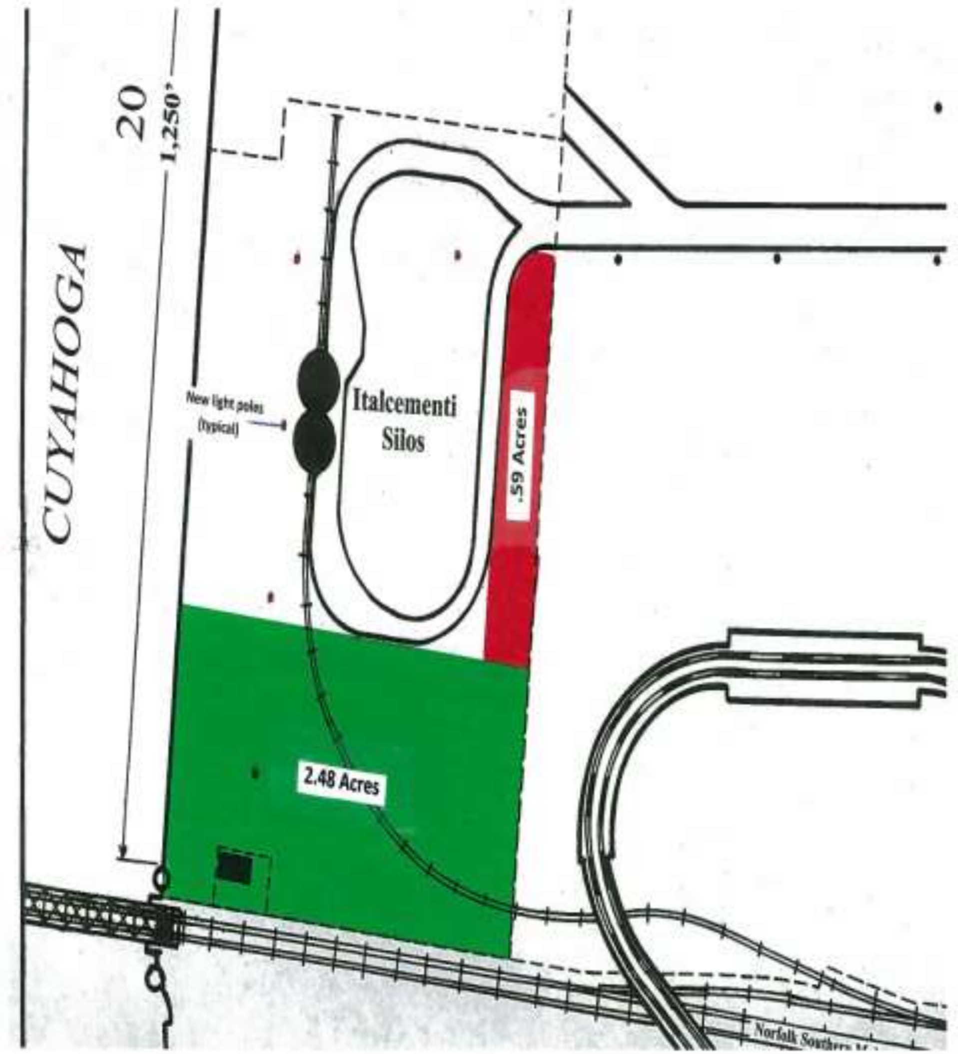
Great Recession – Tenant 1

- ArcelorMittal idled Cleveland plant
  - Over 1/3 of all harbor tonnage
- Lease was 75% dependent on inbound iron ore
- Associated debt was VRDB and interest shot up to over 10%

- Solution:
  - Changed billing to <u>outbound</u> vs. <u>inbound</u> cargo for tenant cash flow and 1 time inventory adjustment
  - Replaced underlying LOC to save on interest costs

Great Recession – Tenant 2

- Cement maker
- Property taxes > $180k for 7 acres
- No demand for additional silos
- Solution:
  - Port reclaimed 47% of property for 30% rent reduction
  - Removed clause req. add'l investment



Great Recession – Tenants 3 and 4

- Both under year-to-year arrangements
  - Each received 25% base rental reductions
  - Port agreed to make additional investments
- Summary of Adjustments
  - Lease revenues down 25%
  - Costs were up
    - Security
    - Health care
    - Interest costs
  - Operating loss = $3.7M (highest ever)

Now what?

- Financial position had rapidly deteriorated
- Outlook - negative
  - Highly uncertain regulatory environment
- Financing program rating downgraded, then pulled

Cleveland Cavaliers
Training Facility
$9.5 Million

Jergen's
$5.7 Million

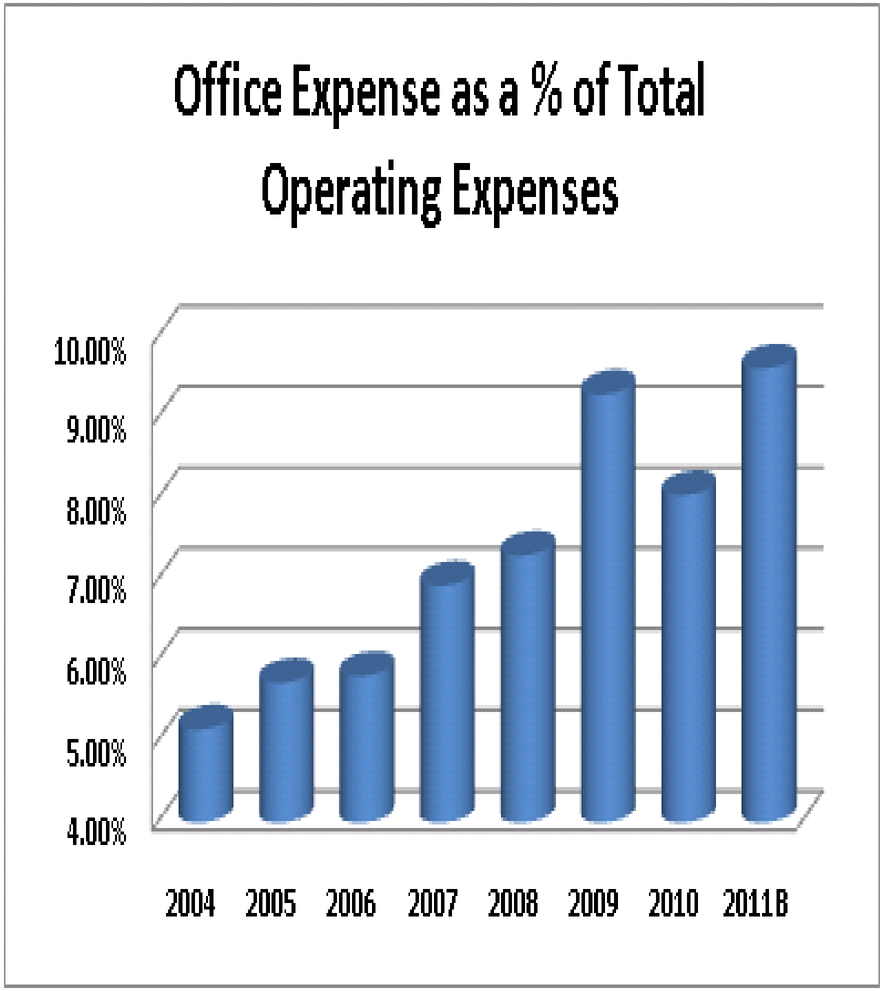
Goodyear Tire & Rubber
$5 Million

Chancellor University

PORT OF CLEVELAND
Cleveland – Cuyahoga County Port Authority

- 41,230 sq ft educational facilty
- Formerly Myers University
- Received asset in exchange for extinguishing a $2.25M obligation
  - $500k in cash
  - $250k in a note
- Leased to occupant for 1 year, then later to Charter school for 5-years
  - Zero vacancy, triple net lease
  - High ROA, IRR

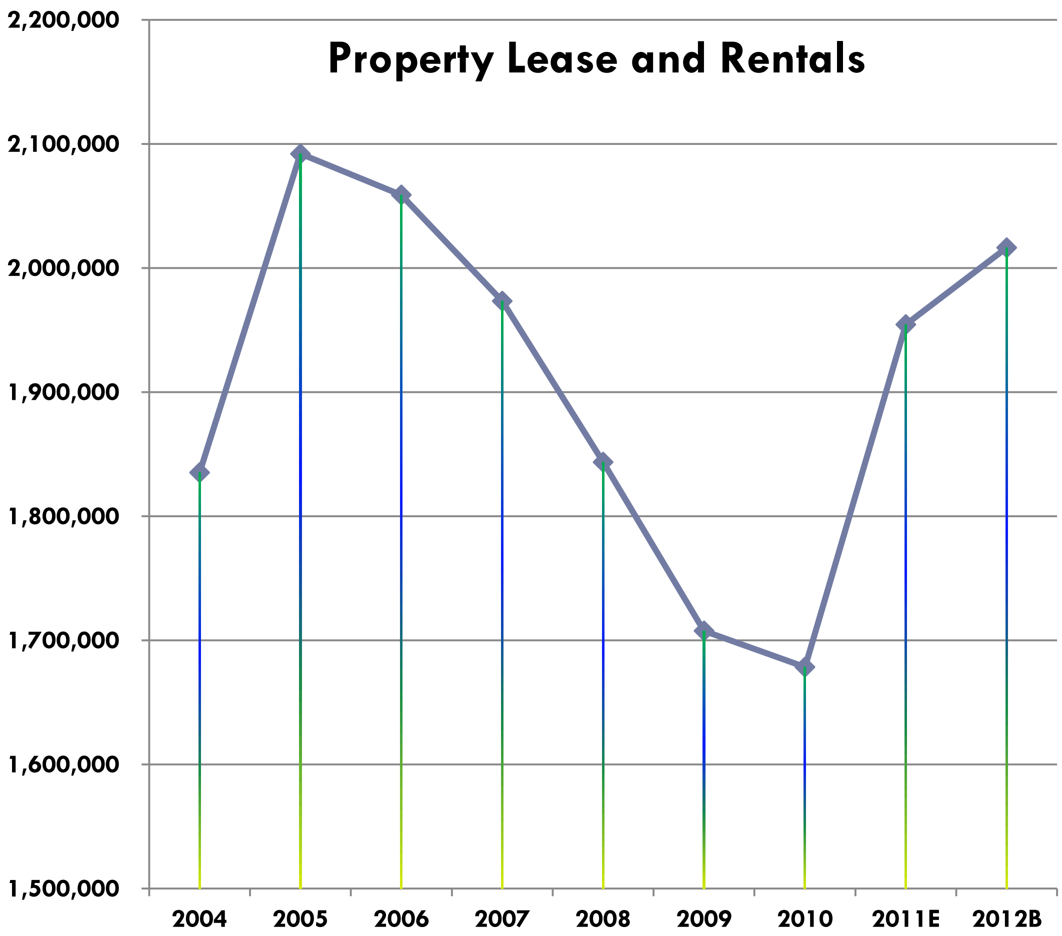
Office Space



Office Space

- Purchase Price: $3,050,000
- NPV of Savings: $883,057
- Average Annual Savings: $270,000
  - No Rental, Meeting or Parking Expenses
  - Assumes alternative rentals are 22% less than today
- IRR: 8.01%; Average ROA: 8.69%
- Reduces Operating Loss and reliance on public dollars

Financial Results



- 2009 Operating Loss = ($3.7M)
- 2012 Operating Loss = ($0.675)

Lessons Learned

- Mixture of base rental and throughput base structures best
  - Match to volatility of cargo type
- Legal counsel is critical
- Underlying debt structure is relevant
  - While leases went down, swap payments went up!
- Real estate is opportunistic, even off the docks
- Niche ports must adapt