Lessons learned in port real estate purchasing, development & leasing, reasons why and an example ©

AAPA Port Finance Seminar
In ‘The Big Orange’
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Challenges facing port authorities

- Port Authority's (PA) role in influencing hinterland access and development
- Example of PA real estate challenge: demand from clients for specialised real estate facilities but no capital to deliver
- Port real estate facilities leasing issues and challenges

Why and How?

PORT AUTHORITY'S ROLE: INFLUENCING HINTERLAND ACCESS & DEVELOPMENT

Port Authority's emerging role

- Now operate as 'for profit' entities, responsible for raising their capital needs
- From operator to asset manager with property their main asset
- PA's address four main functions* :

- Traffic	- Area
- Customer	- Stakeholders

* De Langer, 2008

PA’s evolution

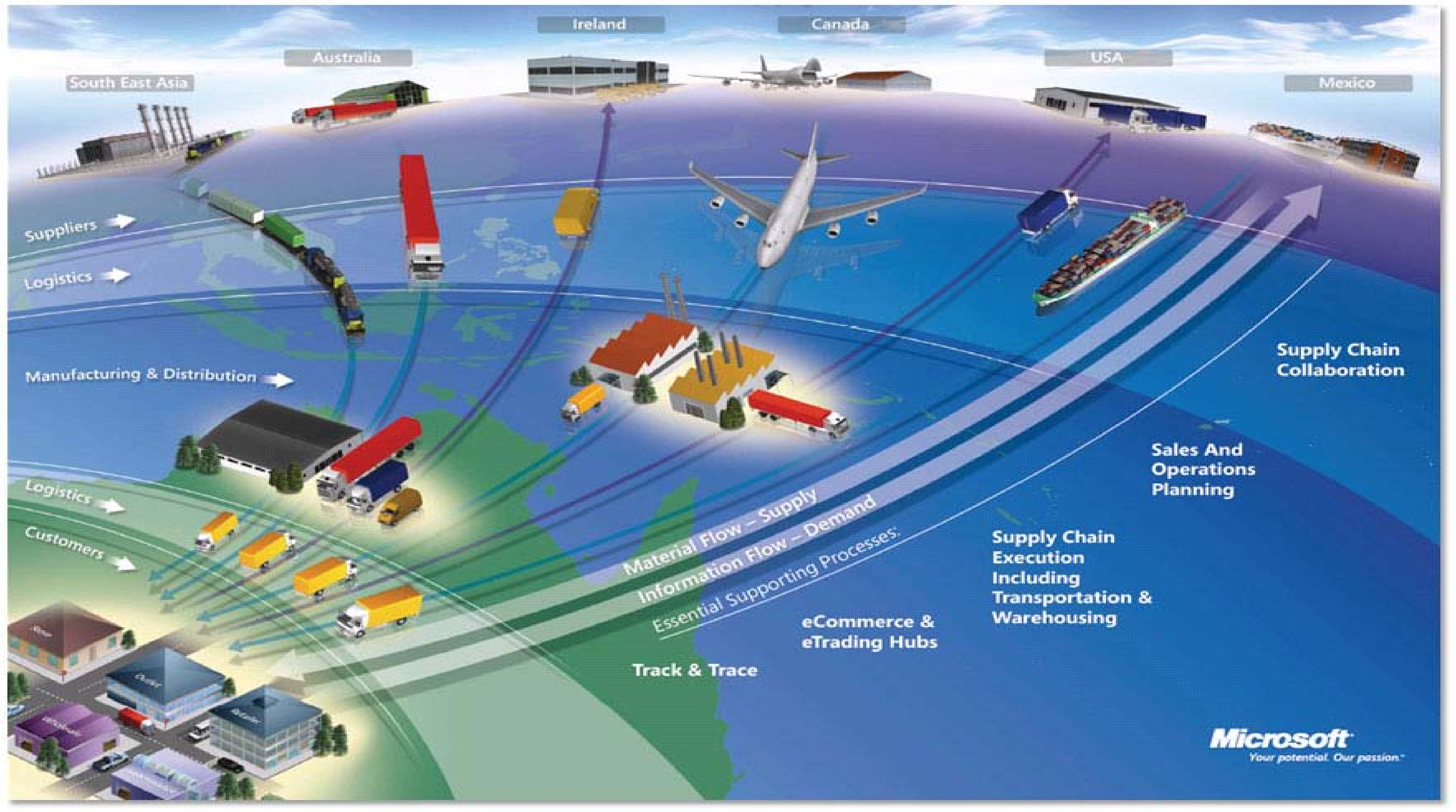
- PA’s must look beyond being an asset manager within the port confines
- Must now actively look where it can facilitate their respective supply chains and logistics corridors through facilitating them and direct infrastructure investment*
- Such investment in time, knowledge and capital leads to **growth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

  - Land values **- Throughput**

  And both are intrinsically intertwined

  ***** de Langen, 2008

The supply chain –
each step is heavily property reliant



Port Authority's future role

- Becoming the nexus/leader of hinterland transport (versus logistics) to:
  - create more efficient hinterland infrastructure and supply chains (resulting in more throughput at port)
- Therefore ports (or the private sector) will increasingly invest in extended terminals and inland logistics infrastructure

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

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

aegir

PAs’ hinterland challenges

- Big ships demand deeper hinterland reach - ports need to deliver
- Terminal operators increasingly becoming ‘door-to-door’ logistics providers
- Intermodality is key to deeper reach
- Clients demand reliability and capacity balanced with cost

PAs' hinterland challenges

- In the 'Sea – Land' equation land now key to compressing supply chains – why?
- Expanded hinterland coverage = ports being more competitive, less oligopolistic*
- Competition now between supply chains/logistics corridors – not ports
- More cargo through fewer ports & ports competing for hinterlands
- Ports need to increase throughput/capacity on same footprint by moving non operational activities inland

* Notteboom, 2008

Integrating port/terminal to supply chains

- Important parameters contributing to integration of port/terminal to supply chains*:
  - Technology
  - Value added services
  - Relationships with lines and clients
  - Facilitation of intermodal transport
  - Channel integration practices

(blue denotes land intensive activities)
* Song and Panayides, 2008

PA's – the natural transport leaders?

- Why PA's are natural transport leaders for logistics chains*:
  - Investments in logistics poles benefits all users, regardless of who invests (resulting in freeloaders). PA's through throughput charges can more equitably invest in infrastructure
  - PA's can manage port communities and clusters to create more efficient, broader, competitive regional load centres
  - 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…

* Notteboom, 2008

Ports as hinterland nexus leaders - examples

Source: PA's websites, trade journals

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

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

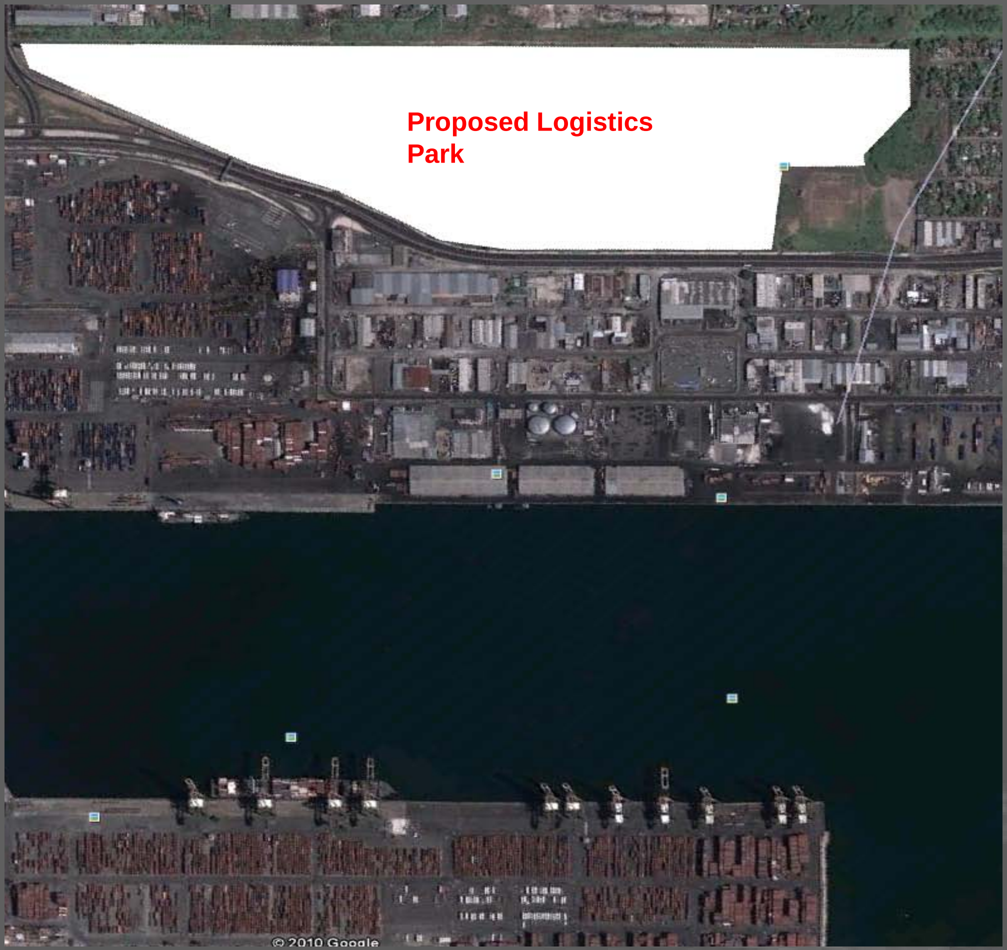
Or this?

It’s all about the BIG PICTURE…

HOW PORT AUTHORITIES CAN CREATIVELY ACCESS PRIVATE CAPITAL – AN EXAMPLE

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


Proposed Logistics
Park
© 2010 Google

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 lack of government capital funds requires hybrid public – private development model

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

- Site very favourably located and potentially large advantage if immediate adjacency to port can be exploited (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 for developers provided international standards of primary logistics development density are adopted

- Adequate returns for the Port Authority will depend on cost of bridge/tunnel access and amount of land rent to be charged

The need to reflect reality…

STRUCTURING LEASES FOR SPECIALISED PORT REAL ESTATE FACILITIES

A few things first…

US Economy: going nowhere – fast;
US Debt: going somewhere – faster
Net result of indicators: property = future key

Leading economic indicators for property: Source: Global Finance, IMF, USBLS, US Dept Treasury											
Year	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012 F**
Real GDP growth ⇕	1.8%	2.5%	3.6%	2.1%	2.7%	1.9%	0.0%	-3.5%	3.0%	1.5%	1.8%
CPI/ inflation ⇧							3.8%	-0.4%	1.6%	3.2%	3.3%
Unem-ployment ⇕							5.8%	9.3%	9.6%	8.9%	8.3%
Public debt as a % of GDP ⇧							69.6%	~84.4%	~93.4%	~96.8%	~101.6%

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

Lease issues

- Realistic capital basis (land value) – the starting point
- Balance between property based rent and throughput based rent MAG (rating agencies?)
- Terms & conditions, adequate and proper rent reviews
- Meaningful lease rates; ‘financiable’ leases
- Impact of capitalised leases (elimination of FAS 13) on tenants (lease versus buy issues by corporations)

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?

Recent (ca 2010) examples of surprising port property values

**Keystone Coal v.
Port of Jacksonville**

- Where: St Johns River, Jacksonville
- Size: 70 acres
- Acquisition: ’08 $10m
- Reported sale/award: Approximately $64.5m (highest in history of state)
- Price per acre: $920k

Port of New York & New Jersey

- Where: Marine Ocean Terminal at Bayonne
- Size: 135 acres
- Reported Sale: $235m
- Price per acre: $1.740m
- On the surface seems expensive, once you get into the details it wasn’t

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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