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

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Challenges facing port authorities

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

To address new realities

PORT'S CHANGING ROLE

Role of Port Authority

'State, municipal, public or private body which is largely responsible for the tasks of construction, administration, and sometime operation of port facilities and ins certain circumstances for security.'

1977 Commission for the European Union

Is this still a valid description/role?

PA financial objectives

- Full recovery of all port related costs, including capital costs and

- Adequate return on capital.

Is this still sufficient???

Port Authorities' evolution

Specialisation	Regionalisation
Transport node	Transport nexus
Port operator	Asset manager
Service provider	Services regulator

Port Authority's emerging role

- 'For profit' entities, responsible for raising their capital needs
- Asset manager with property their main asset
- PA's address four main functions :
  - Traffic (comp advantages)
  - Property
  - Customer (tenants)
  - Stakeholders

Why property is a PA's most strategic asset?

- Address congestion, supply chain compression, 'big ship' requirements
- Improve productivity and 'velocity' to remain 'economically' viable on same footprint
- Better manage security, ecological, logistical constraints
- Now accountable profit centres

Minding a port's largest asset

PORT PROPERTY ASSET MANAGEMENT

Asset Management

"The acquisition, administration, re-development, re-use and disposition of real property assets in such a manner that the owner's business mission, goals and objectives are supported and achieved in the long run and add economic value."

Why PA's need an asset management approach

- Manage revenue and values
- Release tied up equity for expansion/modernisation
- Better manage security, ecological, logistical and quality of life constraints
- Maximise revenues & values for stakeholders

Same objective

Regardless of:

- **port type** (ie, transhipment, gateway city – port, inland, sea, large or small) or
- **property portfolio** (ie, strictly operating properties or similar to institutional property investment with hotels, offices, etc)

Objective remains:

MAXIMISE REVENUES AND ASSET VALUES

PA's property asset management challenges

- Overarch property with business strategy and mission
- Access available, lower cost, private capital and financial markets
- Use asset management tools like EVA

EVA: Benefits from managing for value - refocus, reconfigure, re-engineer

Shareholders:
•Higher value
•Higher returns

Port:
•Enhanced viability
•Inward investment
•More competitive
•More profitable
•More valuable

Clients:
•Better service
•Better price
•Better productivity

Community:
•Sustainability
•Economic contribution
•Jobs

Effective property asset management requires:

- An asset management plan
- Operational controls to execute plan
- ‘Market driven’ property decisions
- Proper lease structuring
- Benchmarking performance

How to measure financial performance?

Capitalization Rate:
NOI/Price

Equity Div. Rate:
BTCF/Equity

Debt Coverage:
NOI/Mtg Pmt

Net Present Value

Internal Rate of Return

Modified IRR

Profitability Index

Cash Flow from Operations

Cash Flow from Resale

PA's moving forward

- Evolve beyond asset manager and port confines as transport nexus
- Facilitate direct infrastructure investment to expand supply chains and logistics corridors
- **This requires two main revenue drivers:**
  - Land values **- Throughput***

Both intrinsically intertwined and property dependent

* de Langen

Why and How?

PORT AUTHORITY'S INFLUENCING HINTERLAND ACCESS & DEVELOPMENT

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

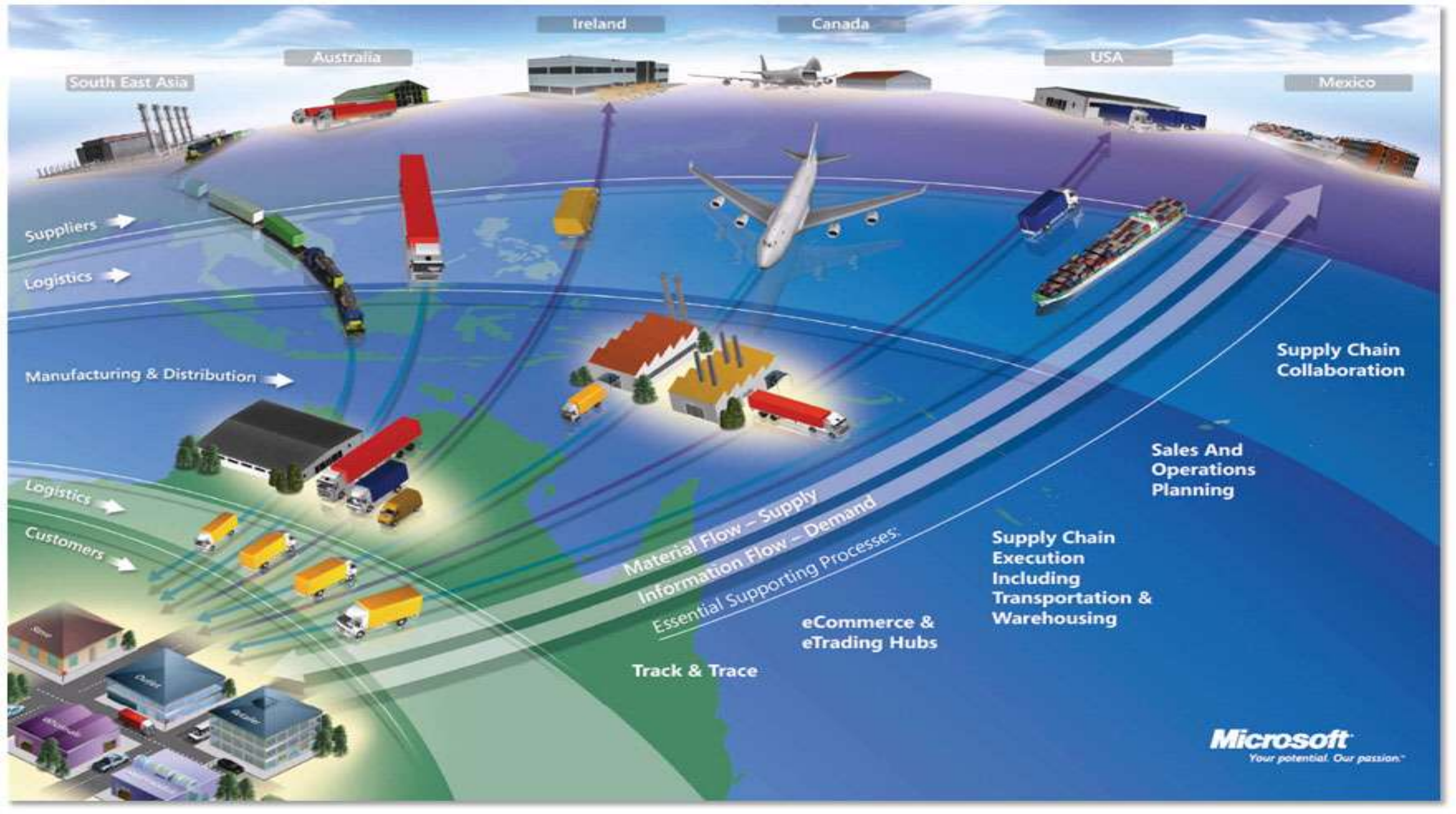
• But ports are weal links in present supply chain – inability to process more faster

• **Logistics** - efficient industry, excellent leadership;
transport - fragmented, no clear leader;
who fills vacuum, ports?

• 'Just in time' now 'integrated time', requiring more specialised port facilities and infrastructure

• Property at, near and related to ports is key

The supply chain – each step is heavily property reliant



PAs’ hinterland challenges

- Big ships require deeper hinterland reach, intermodality key
- Terminal operators increasingly ‘door-to-door’ logistics providers
- Clients demand reliability and capacity balanced with cost

Results in:

- In ‘Sea – Land’ equation land is key to compress supply chains
- Expanded hinterland coverage = ports more competitive, less oligopolistic*
- Competition between supply chains/logistics corridors – not ports
- More cargo through fewer ports; ports compete for hinterlands
- Ports need to increase throughput/capacity on same footprint

* Notteboom, 2008

PA's – the natural transport leaders?

- PA's natural transport leaders for logistics chains*:
  - Investments in logistics poles benefits all users resulting in freeloaders; throughput charges allows PA's to more equitably invest in infrastructure
  - PA's better manage port communities and clusters to create efficient, broader, competitive regional load centres
  - PA's better manage environmental constraints
  - Better managed logistics pole guarantee PA's competitive advantages 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?

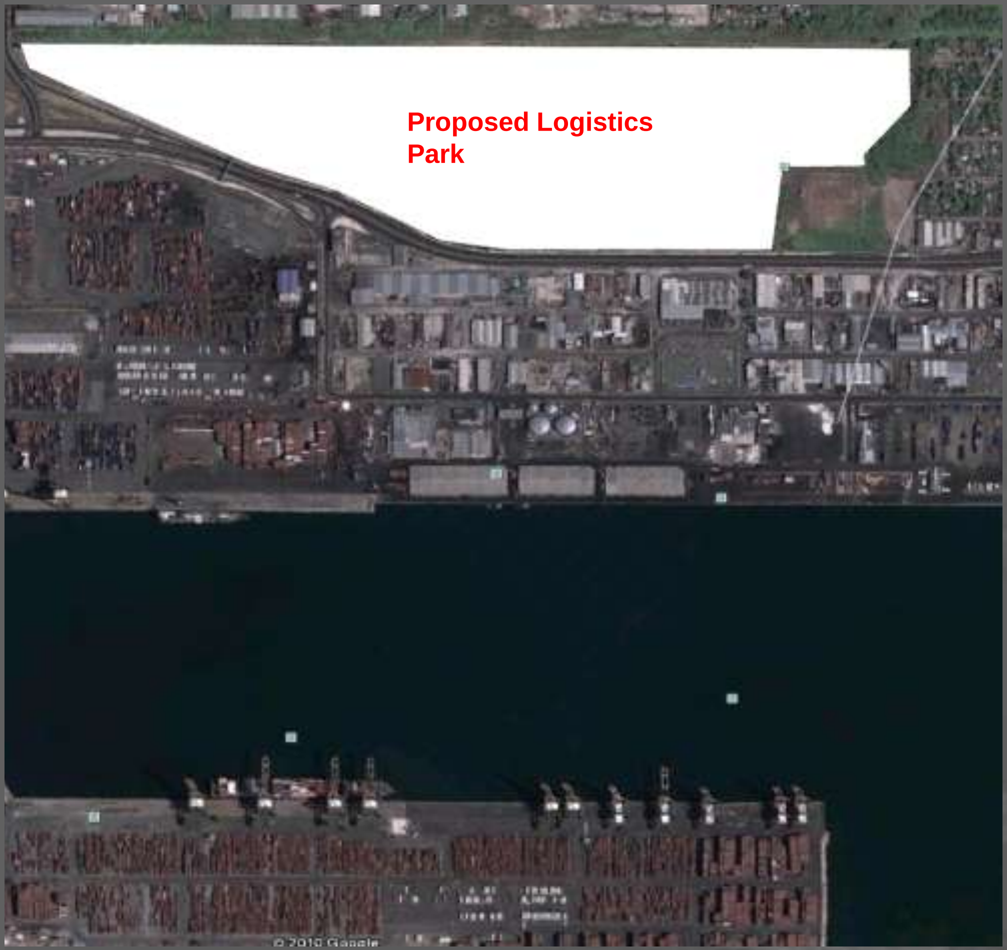
Or this?

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, national economic conditions dismal
- Opportunities:
  - Market demanding specialised logistics park facilities and services
  - regional pension funds’ capital available with proper structuring


Proposed Logistics
Park
© 2010 Google

High Level Financial Evaluation –

Scenario 1 very low probability; Scenario 2 high	Scenario 1 PA (per cent)	Scenario 2 Alternative (per cent)
Land Use Proportions Infrastructure	23	20
Office	21.6	18.9
Promotional	32.4	0.0
Logistics	46.0	81.1
Developers Cash Yield Office	11.0	11.2
Promotional	5.3	0.0
Logistics	6.5	6.5
Total	7.4	8.6
PA Cash Yield	6.4	9.2

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%.

Issues

- Promotional facilities will not lead to logistics activity
- Primary logistics, light manufacture and assembly is the market
- Lack of government capital requires PPP development model
- Success requires unified development body (ie, PA) - to facilitate development process
- Site favourably located, potentially large advantage for PA if adjacency to port can be exploited (compromised by the intersecting highway)

Solutions

- Access port via toll bridge to integrated park with terminal
- Analysis suggests favourable returns for developers and interest from private sector as a capital source
- Adequate returns for the Port Authority just from leasing land with no risk

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%

What's the difference lease wise?

Port? **Regional shopping centre?**

What's in your lease?

- Rates benchmarked against non port properties?
- Accounts for the real value of port property?
- Strategically formulated to give port maximum flexibility, financial protection?
- Synchronised with operations to produce revenue synergies?
- Will it produce real profits?

What should be in a lease?

Costs

- Asset value
- Cost of capital, risk?
- Inflation?
- Capital sinking fund for renovations, infrastructure recapture?
- Repair & maintenance?
- Operating, insurance, security, electricity?

Revenue

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

Lease issues

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

Recent example lease structure missing the mark

- Major refrigerated terminal build - to - suit ($50m)
- Long term lease (50 years)
- Lease structured to only recapture development costs over lease term
- ‘Profit’ for PA to be obtained through throughput charges ie, wharfage and dockage

- What did this accomplish?
  - What about the value of the underlying asset – land?
  - What is the real return on asset here?
- Was this short sighted?

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

Aegir Port Property Advisers