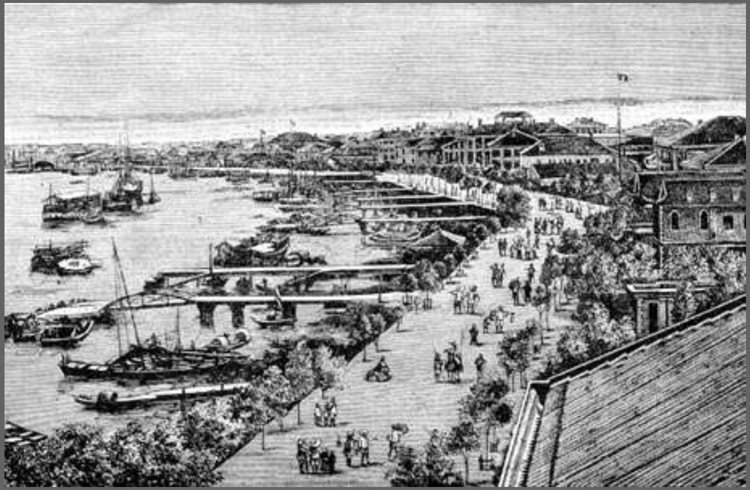

John Swire & Sons est. 1816 – Asia Waterfront – Bund, Shanghai, 1840's

Navigating the World of Port Properties to Maximize the Value of Your Port" ©

AAPA Commissioners Seminar
Ft Lauderdale Florida
4 June 2013

Agenda

- The Infrastructure Challenge
- Evolution of port authorities
- A port’s core business
- Port real estate issues and challenges
- Capturing opportunity – port property strategy
- Current state of ‘port property’
- Conclusions

The infrastructure challenge – why things will change, quickly

- $57 trillion in global infrastructure required in 2013 - 2030 just to keep up with projected GDP growth (McKinsey Global Institute)

- This is exceeds the value of global infrastructure today (MGI)

- US requires $1.6T next five years (double current outlay) just to bring infrastructure to acceptable levels (ASCE)

- US port infrastructure underinvestment: past 4 years USDOT invested $357m in 25 port projects; $40m less than Port of New Orleans did in its own port (The Economist)

-

Infrastructure challenge

- US port infrastructure: ranked 22nd globally, behind Iceland and Estonia (World Economic Forum)

- US national debt: now at $16.8 trillion

- How many believe infrastructure can/will continue to be funded the way it has been?

- Has the time arrived where infrastructure capital requirements has outpaced most governments ability to fund it?

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Port Authorities' evolution

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

PA's – they're in a different business now

Port Authority’s emerging role

- Now operate as ‘for profit’ entities, responsible for raising their capital needs
- From operator to asset manager - 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 actively look where it can promote their respective supply chains/logistics corridors through facilitating them, directing infrastructure investment*
- Such investment in time, knowledge and capital leads to **growth in two main revenue drivers:**

  - **Land rent/values** - **Throughput**

Both are intrinsically intertwined

* de Langen, 2008

Where are ports in the modern supply chain?

- Ports: elements in value driven supply chain systems - now nodes
- Supply chains: relatively opaque – no sharing of data
- Logistics is highly efficient industry; transport is balkanised – major opportunity for ports
- Integration of existing assets can result in major efficiencies

Port Authority’s future role

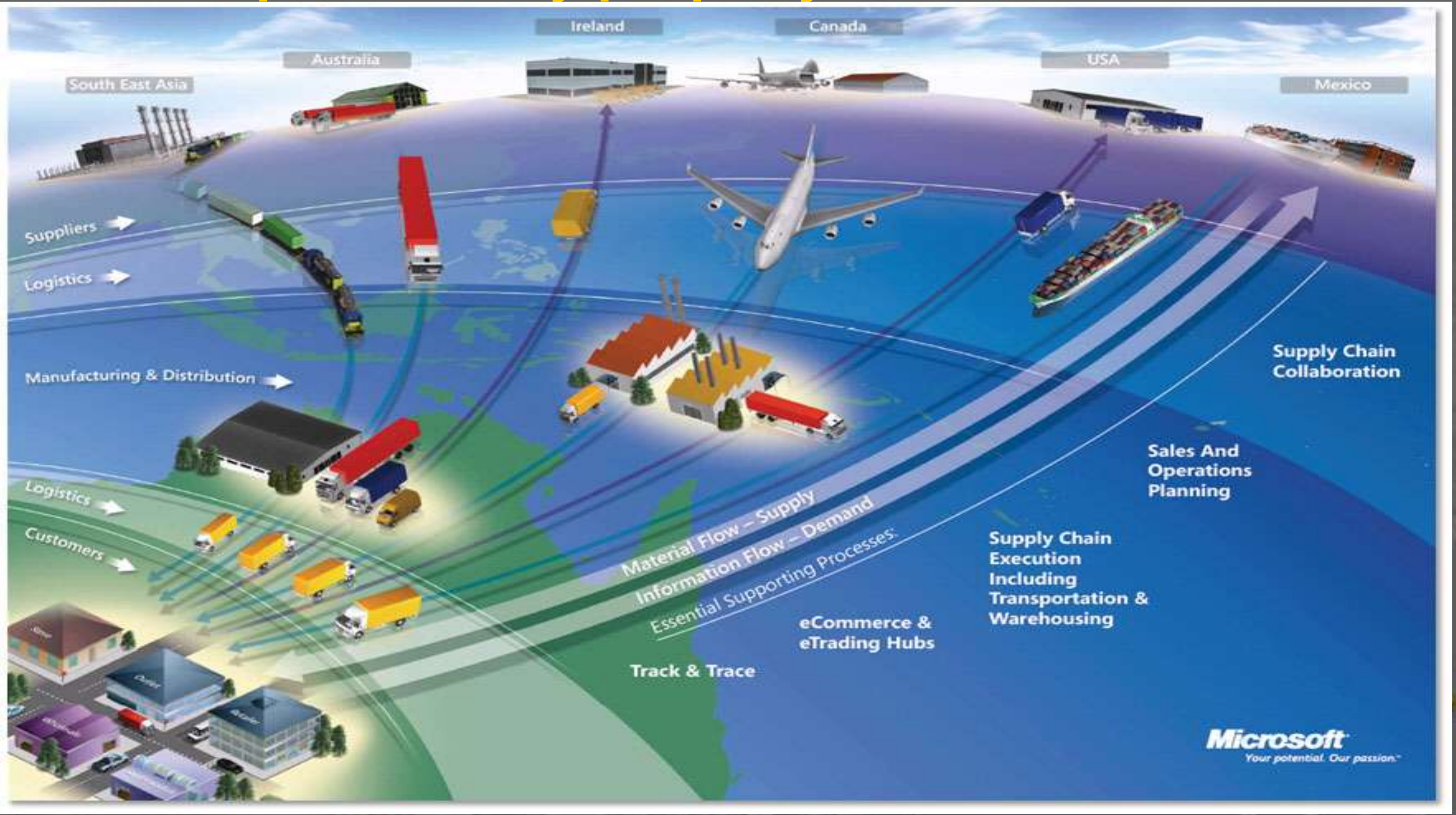
- Become nexus/leader of hinterland transport (versus logistics) to: create more efficient hinterland infrastructure and supply chains - resulting in more throughput at port

- Therefore ports and the private sector need and will increasingly invest in extended terminals (dry ports) and inland logistics infrastructure

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

- Within present supply chain - ports are 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

The supply chain –
each step is heavily property reliant



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

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?

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What business are ports in today?

Port?

Regional shopping centre?

Why PA's need an asset management approach

- More effectively access private capital to release tied up equity in largest asset – property
- Increasing ability to borrow beyond enterprise value
- Increase competitive advantages
- Increase property revenue streams
- Maximise overall port value
- Extend port 'life cycle' to circumvent economic/functional obsolescence

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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, security, electricity?

Revenue

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

Valuation Challenges

- Valuation of port properties benchmarked against true 'like kind' properties (but there are few 'sales')
- Need to concentrate on port's specialised economic use (yet maximisation takes second to economic development)
- Replacement, comparable sales or income approach?
- Recapture of infrastructure, real return of and on capital (yet ports still highly subsidised)

On what basis do you value port property?

- On its ability to generate a cash flow
- The strength of the lease covenant
- Lease terms and conditions eg, rent reviews, pass throughs, etc
- Income versus comparable as there are very few port properties sold.

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

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

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

- **Challenges**: no capital in budget, national economic conditions dismal (18 quarters economic contraction)

- **Opportunities**: Market demanding specialised logistics park facilities and services; regional pension funds could be available with proper structuring


Proposed Logistics
Park
© 2010 Google

High Level Financial Evaluation –

	Scenario 1 PA (per cent)	Scenario 2 Aegir Alternative (per cent)
Land Use Proportions **Infrastructure**	23	**20**
Office	21.6	**18.9**
Promotional (unrealistic)	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%.

Solutions

- Promotional facilities will not lead to increased logistics activity; primary logistics including light manufacture and assembly is the substantive market
- Lack of government capital funds requires hybrid public – private development model
- Success requires unified development body (ie, PA) to provide 'one stop shop' for potential development partners and end customers
- Site favourably located and very large advantage if adjacency to port can be exploited (compromised by the intersecting highway)

Solutions

- Access by bridge required if the Site to be integrated with terminal to gain the full advantages of port centricity
- Financial analysis suggests favourable returns for developers, provided international standards of primary logistics development density are adopted
- Adequate returns for Port Authority depend on cost of bridge access and amount of land rent to be charged
- With pension funds, project is a 'GO'

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State of port property

- International survey conducted of six ports:
  - US Gateway
  - US Inland
  - US Gulf
  - European gateway
  - Asian transhipment
  - Latin American regional

State of port property

- Port's surveyed represented:
  - 34,176 acres/13,831 hectares
  - $6.835 billion in land value (at $200k/acre or $495k/ha)
  - 2,145,000 teu's
  - 750,000,000 MT

Survey results

- Ports need to act like a business and not constrained by economic development issues
- Have reached serious point of being capital constrained; past financing methods do not work
- Need to better understand private sector capital markets
- Believe solutions will come from private sector

Survey results

- Shift to property rent revenue from MAG’s and throughput charges
- Property side of business needs to be better understood
- Terminal concessions do not take into account underlying land
- No starting basis of value for property portfolio

Survey results

- Traditional appraisers do not understand dynamics of port business, challenged in identifying ‘highest and best’ uses
- Want accurate data on property values to better manage business
- Economic development requirements disconnects them from real, competitive world
- Leases do not reflect real financial performance needs

Survey results

- No port property asset management in place
- Capitalisation rates and financial performance thresholds not readily defined
- Property departments understaffed; importance of property little understood outside of senior management
- Underperforming financially

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Conclusions

The future of this industry promises to evolve at exponentially faster rates than in recent history – and that was fast.

Regardless of size, all ports are grappling with where and how to finance expansion and modernisation and increase profits.

Property will be the ports' sector's next frontier.

The future of you port lies

IN LAND!

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

Thank You

Aegir Port Property Advisers

Drewry Maritime Advisors