Growth Opportunities for General Cargo & Shallow Draft Ports – A Property Perspective

American Association of Port Authorities
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Summary

• Role of port authorities
• Port properties
• Asset management
• Benchmarking

• Regionalisation
• Opportunities
• Challenges
• Solutions
• Conclusions
No longer business as usual

Due to:

• Escalating property costs
• Land shortages
• Congestion – hinterland access
• Security and ecological constraints
• Profitability & productivity demands
• Regionalisation
Port Property

Port Authorities (PA’s) control significant strategically located waterfront property, which typically:

• Is the largest asset on their balance sheet
• Financially underperforms
• May operationally be underutilised
• Is viewed as an administrative function - not a strategic asset
Why PA’s need to manage port properties professionally?

- Changing role: operators to asset managers
- Congestion pressures, supply chain compression, regionalisation
- Land constrained ports must improve productivity and ‘velocity’ to remain ‘economically’ viable – the opportunity for shallow draft ports
- Better manage security, ecological, logistical and quality of life constraints
- Now profit centres - must maximise revenues & values to facilitate access to private capital to modernise & expand
To maximise profit and asset values PA’s should:

- Develop ‘asset management’ skill sets
- Manage ‘property’ as a strategic asset
- Be financially disciplined with property like operations to optimise land usage based on economic value added thresholds eg,
  - increasing velocity - moving distribution and warehousing to hinterlands
  - Identify and capitalise natural convergence of intermodal points (typically closer to shallow draft ports) with in effective property strategies
EVA: Benefits from managing for value - refocus, reconfigure, re-engineer

Shareholders:
• Higher value
• Higher returns

Clients:
• Better service
• Better price
• Better productivity

Community:
• Sustainability
• Economic contribution
• Jobs

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

VALUE
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.”
Asset & Property Management

Effective asset management requires:
• Strategic property asset management plan
• Operational controls to execute plan
• Property decisions need to be ‘market driven’
• Property goals and strategies need to overarch port’s
Overarching port property objectives with the port’s

Port property strategies need to:
• Support the port’s core business
• Create synergies and competitive advantages with port operations
• Increase port’s operational efficiency, address client needs
• Make most of existing logistical infrastructure and changes - regionalisation
Professional Management of Port Properties Required

Due to:

- Servicing of ‘Big’ ships, congestion, infrastructure limitations
- Changing role of port authorities (PA’s): operators to asset managers – new performance measures
- PA’s now profit centres
- In new freight paradigm costs can only be reduced by compressing hinterland logistical supply chains – which are closer to shallow draft ports
- PA’s need to access capital to expand & modernise

But needs benchmarking to succeed……..
Benchmarking: The Key

• Crucial element to developing, executing and managing an effective asset management plan
• Required to attain any reasonable performance goals
• Results in the collection, dissemination and sharing of key data between major managerial elements of the PA: Finance, IT, Operations
Benchmarking Requires

- Aggregation of properties (shallow draft particularly challenging)
- Lease administration
- Accurate market values for port properties – challenging as values should be based on like kind comparables which may be around the world (rather than across the street) and on the economic value and potential of the site.
Regionalisation

- Ports will integrate into new freight paradigm – major impact on land usage
- Inland distribution cost - now savings area
- Constraints (political, ecological, economic) will force hinterland expansion and access
- 3PL heavy users of real estate facilities
Regionalisation (cont.)

- Inland logistics considered most vital area to cut costs, eg cheaper to go transatlantic than across state
- Corridors and inland terminals – *cornerstones* in port regionalisation
- Inland ports critical to maintaining major seaport efficiency, attractiveness and competitive advantages (eg velocity/productivity) ie, ‘the integrated maritime system’ – Kurt Nagel
- Ports now most important node in supply chain – need to extend their ‘spheres of influence’
- All of which is heavily dependent on strategic management of land usage

Regionalisation – heavily property based

Evolution of a Port
Notteboom, TE, Rodrigue, J.P., Port Regionalisation: Towards a New Phase in Port Development, Maritime Policy & Management, 2005

Level of functional integration
1. Setting
2. Expansion
3. Specialisation
4. Regionalisation

Freight dist ctr
General cargo
Reconversion
Freight corridor
Urban area

Port
Container
Bulk
Managing port land usage

• Emphasis on maximising value, revenues & meeting client needs but always ‘market driven’ eg the new ‘one’ container terminal

• Land planning should always requires careful strategic asset management and input from critical sr. management, clients & stakeholders:
  – Executive
  – Financial/IT
  – Operational
  – Corporate Responsibility
Bridging dynamics between maritime & property industries

- To obtain maximum operating efficiencies
- Create major competitive advantages - developing special use facilities to attract clients
- Maximize property asset performance - enhance overall port value
- Release equity tied up in port lands for port modernization and expansion
- Seize on deep water ports’ challenges to create a more integrated maritime system and compressed supply chain
Opportunities

• Maximise value and increase critical flexibility of a port’s land banks to address diverse break & general cargo clientele
• Create of new revenue streams in the process
• Resulting in releasing tied up capital through:
  – Raising off balance sheet debt & equity eg,
    • PPP – Public Private Partnerships
    • L-T ground leases
    • Build-to-suits
Opportunities

• Create competitive advantages by:
  – Integrating hinterlands with port operations to shorten supply chain through your better access to sites for intermodal platforms, distribution centres
  – Development of specific use, non-traditional port properties eg, strip & stuff, distribution, office, container maintenance & storage; ‘break bulk’ automotive (containers – S Africa) with your better access to developable land
  – Better access to intermodal points

All of which are heavily property based
Challenges

• Dispersed land banks and portfolios require more intense asset and property management.
• Accessing expertise to develop and execute comprehensive real estate strategies.
• Selling ‘seemingly’ non-core business – property - to stakeholders.
• Instituting disciplined property asset and management procedures.
Solutions

• Integrating ‘best practices’ from maritime & property industries
• Treating property as a strategic asset and not an administrative function
• Bridging dynamics through market intelligence, industry expertise from various industries
• Long term strategic thinking – prepare to meet future trends now
Conclusions

Effective management of a port’s real property holdings can:

• Maximise a port’s value to its stakeholders
• Create additional revenue streams
• Better retain and attract clients through creative land use port lands and facilities to meet client need
• Release needed capital from tied up equity in land holdings
• Extend a port’s economic life cycle by better integrating it into regional logistics chains
‘Navigating the World of Port Properties – to Maximise Port Values’
Thank You

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AAPA Growth Opportunities