

Valuation of Port Property

A Pacific Northwest Perspective

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Valuation of Port Property

Value Matrix

Current Use

Highest and Best Use

Single Parcel

\$\$

\$\$\$

Entire Port

\$

\$\$

Valuation of Port Property

Value Matrix

Current Use

Highest and Best Use

Single Parcel

\$\$

\$\$\$

Rental

Taxation

Entire Port

\$

\$\$

Bond Financing

Public Relations

Highest and Best Use

Ad Valorem Property Tax Values



Highest and Best Use

Ad Valorem Property Tax Values

Port of Seattle container terminal land values

- \$10/sf T-18 Harbor Island
- \$12/sf T-5 West Seattle
- \$16/sf T-25 1 mile south of sports stadiums
- \$18/sf T-30 ½ mile south of sports stadiums
- \$25/sf T-46 Across from sports stadiums

Source: King County Assessor



Current Use

Leasehold Taxation in Washington State

- Public property is exempt from ad valorem taxation
- Tax on rent paid by private user of public property
- Equal to 12.84% of contract rent
- Legislative intent was to ensure tax equity

Leasehold Taxation

Tax Equity

Property Value	\$1,000.00
Ad Valorem Tax Rate (Seattle)	1.04%
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Ad Valorem Property Tax	\$10.40

Property Value	\$1,000.00
Rent Rate	8.00%
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Rent	\$80.00
Leasehold Tax Rate	12.84%
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Leasehold Tax	\$10.27

Leasehold Taxation

Reducing Tax Equity by Restricting to Desired Use

Property Value	\$2,500.00
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Ad Valorem Tax Rate (Seattle)	1.04%
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Ad Valorem Property Tax	\$26.00
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Rent	\$80.00
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Leasehold Tax Rate	12.84%
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Leasehold Tax	\$10.27
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Tax Savings	61% or \$15.73
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Leasehold Taxation

Becoming More Competitive By Redefining Rent

- Land traditionally rented at a uniform rate per acre
- Aggressive interpretation of the leasehold tax rules
 - Must be 30 days or longer
 - Port solution- preferential but not exclusive use of the berthing corridor
 - Must be rent
 - Port solution- define the payment made for berthing corridor as a “use fee”

Leasehold Taxation

Becoming More Competitive By Redefining Rent

Component	Acres	\$ per Acre	Rent	Leasehold Tax
Container Yard	140.07	\$64,571	\$9,044,497	\$1,161,313
Berthing Apron	17.93	\$64,571	\$1,157,763	\$148,657
Total or Average	158.00	\$64,571	\$10,202,260	\$1,309,970

Component	Acres	\$ per Acre	Rent	Leasehold Tax
Container Yard	140.07	\$40,955	\$5,736,701	\$736,592
Berthing Apron	17.93	\$249,084	\$4,465,559	\$0
Total or Average	158.00	\$64,571	\$10,202,260	\$736,592

Savings in Leasehold Tax

44% or \$573,378



Meeting the Competition

State of Oregon

- Tenants of public property pay ad valorem taxes
- Port berthing aprons are specifically exempted
- Tax rate set by referendum at 1.5% of assessed value
- Assessment ratio set at 90% in 1995; now about 74%
- Assessed values increase at lesser of 3% or market value
- Port shipping tenants pay only half of school tax

Meeting the Competition

State of California

- Tenants of public property pay possessory interest tax
- Value of fee simple estate, excluding reversionary value
- Value is based on specific use permitted in lease
- Base year value; taxes cannot rise more than 2% per year

Summary

Moving the Playing Field for Taxation

- Washington
 - Leasehold tax based on contract rent
 - Fee, not rent, charged for berthing corridor
 - Disproportionate allocation to berthing corridor

Summary

Moving the Playing Field for Taxation

- Oregon
 - Assessed value base year set in 1995
 - Increases at lesser of market value or 3% per year
 - Decreasing assessment ratio
 - Tax rate is fixed
 - Berthing corridor is exempt from taxation
 - School portion of tax cut in half

Summary

Moving the Playing Field for Taxation

- California
 - Possessory interest value
 - Government's reversionary value is excluded
 - Value based on specific use stated in lease
 - Taxes cannot rise more than 2% per year

Operating Unit Valuation

Port of Seattle versus Keystone REIT

	Port of Seattle	Keystone REIT
Rent	\$57,132	\$88,520
<u>Other Income</u>	<u>\$30,580</u>	<u>\$24,372</u>
Total Revenue	\$87,731	\$112,892
Operation & Maintenance	\$48,729	\$9,596
Real Estate Taxes	\$0	\$12,632
<u>Administration & Other</u>	<u>\$16,413</u>	<u>\$12,704</u>
<u>Total Operating Expenses</u>	<u>\$65,142</u>	<u>\$34,932</u>
Net Operating Income	\$22,589	\$77,960
<u>Capitalization Rate</u>	<u>6.4%</u>	<u>6.4%</u>
Indicated Value	\$350 million	\$1.2 billion



Operating Unit Valuation

Port of Seattle versus Keystone REIT

	<u>Port of Seattle</u>	<u>Keystone REIT</u>
Indicated Value	\$350 million	\$1.2 billion
<u>Less Debt</u>	<u>(\$510 million)</u>	
Equity	(\$160 million)	
Total Assets on Balance Sheet	\$1.2 billion	\$1.1 billion
Tax Levy (Dividend)	\$57,793	(\$40,427)
<u>Capitalization Rate</u>	<u>5.0%</u>	
Value of Tax Levy	\$1.15 billion	



Tax Levy

Port of Seattle

	<u>2003 \$</u>	<u>Tax Levy %</u>
Rent	\$57,132	
<u>Other Income</u>	<u>\$30,580</u>	
Total Revenue	\$87,731	65%
Operation & Maintenance	\$48,729	
<u>Administration & Other</u>	<u>\$16,413</u>	
<u>Total Operation Expenses</u>	<u>\$65,142</u>	<u>89%</u>
Net Operating Income	\$22,589	256%
Debt Service	\$18,258	317%
<u>Tax Levy</u>	<u>\$57,793</u>	

Valuation of Ports

The Pacific Northwest Perspective

It's all about competition

- Cut property taxes
- Subsidize rent with tax levy

