



The British Perspective: The Valuation of Ports for Non-Domestic Rating

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what do you value?

Background



➤ Non-Domestic Rates

- Property based tax for non-domestic
- Who pays and what?

➤ Rateable Value

- Annual value
- 5 year revaluations
- The valuation hypothesis

what do you value?

The task



- Formula/prescribed assessment
 - 50 large ports not valued conventionally since 1970s
 - Formula for 30 years
 - Ends in 2005
- 2005: The Right First Time revaluation
 - 1 April 2003 valuation date
 - Sample valuations
 - Valuation model
 - Consultation

what do you value?

The Rental Method



- UK port structure
- Evidence
- Limitations
 - Use and purpose
 - Unimproved
 - Not “clean”
 - Scale

what do you value?

Contractor's Basis



- Cost based approach
- Viable in principle
- Limitations
 - Evidence of costs
 - Superfluity (“Stage 1”)
 - Obsolescence (“Stage 2”)
 - End allowances (“Stage 5”)

what do you value?

Receipts and Expenditure



- Income approach (for annual value)
 - Revenue
 - Expenditure
 - Divisible Balance
 - Tenant's Share
- Suitable for ports:
 - Clearly identified revenue and expenditure
 - Monopoly of place
- Type of R&E

what do you value?

Snap shot approach



	2000/01	2001/02	2002/03	Adopted
<i>Gross receipts</i>	10,000,000	11,000,000	12,000,000	13,000,000
Total Income				13,000,000
Cost of Sales	3,000,000	4,000,000	5,000,000	6,000,000
Other expenses	2,000,000	2,000,000	2,000,000	2,000,000
Additional repairs	300,000	300,000	350,000	350,000
Expenditure before tenant's depreciation				8,350,000
Tenant's Depreciation				900,000
Total Expenditure				9,250,000
Divisible balance (Income less expenditure)				3,750,000
Value of tenant's assets			20,000,000	
Working capital			1,400,000	
Tenant's capital			21,400,000	
return on tenant's capital			8%	
Tenant's share			1,712,000	1,712,000
Rateable value				2,038,000

what do you value?

Forecast approach



	2003/04	2004/05	2005/06	2006/07	2007/08
Turnover	13,000,000	14,000,000	15,000,000	16,000,000	17,000,000
Cost of Sales	6,000,000	6,500,000	7,000,000	7,500,000	8,000,000
Other expenses	2,000,000	2,300,000	2,600,000	2,900,000	3,200,000
Additional repairs	350,000	400,000	450,000	500,000	550,000
Tenant's Depreciation	900,000	1,000,000	1,100,000	1,200,000	1,300,000
Total Expenditure	9,250,000	10,200,000	11,150,000	12,100,000	13,050,000
Divisible balance	3,750,000	3,800,000	3,850,000	3,900,000	3,950,000
Working capital (2 months)	1,391,667	1,426,458	1,462,120	1,498,673	1,536,140
Tenant's assets	20,000,000	20,500,000	21,012,500	21,537,813	22,076,258
Tenant's capital	21,391,667	21,926,458	22,474,620	23,036,485	23,612,397
Return on tenant's capital	8.0%	8.0%	8.0%	8.0%	8.0%
Tenant's share	1,711,333	1,754,117	1,797,970	1,842,919	1,888,992
Rent	2,038,667	2,045,883	2,052,030	2,057,081	2,061,008
PV rate	10.70%				
PV factor (1/4 in advance)	0.98777	0.89230	0.80605	0.72814	0.65776
Present Value (1/4 in advance)	2,013,738	1,825,535	1,654,038	1,497,840	1,355,645
PV factor (simple)	1.000000	0.903342	0.816027	0.737152	0.665901
Equivalent rent (1/4 in advance)	2,024,731				

what do you value?

Issues - Repair



- Repair at UK ports
 - Asset sweating
 - ALWC
- Repair in rating
 - Meaning of repair
 - Reasonable state of repair
 - Capitalisation policies
- The answer

what do you value?

Issues - tenant's depreciation



- Purpose of tenant's depreciation
 - Replacement of assets
 - Maintaining capital
- The mechanics
 - Analysis of asset registers
 - indexation
 - “big ticket” items
 - Full replacement cost over full asset lives
- The answer

what do you value?

Issues – Tenant's share (1)



- Purpose of tenant's share
 - To induce him to take the tenancy
 - Not pay for time or expertise of managers
 - To provide a return on the capital invested
- Methods
 - Percentage of receipts
 - Split of divisible balance
 - Return on tenant's capital

what do you value?

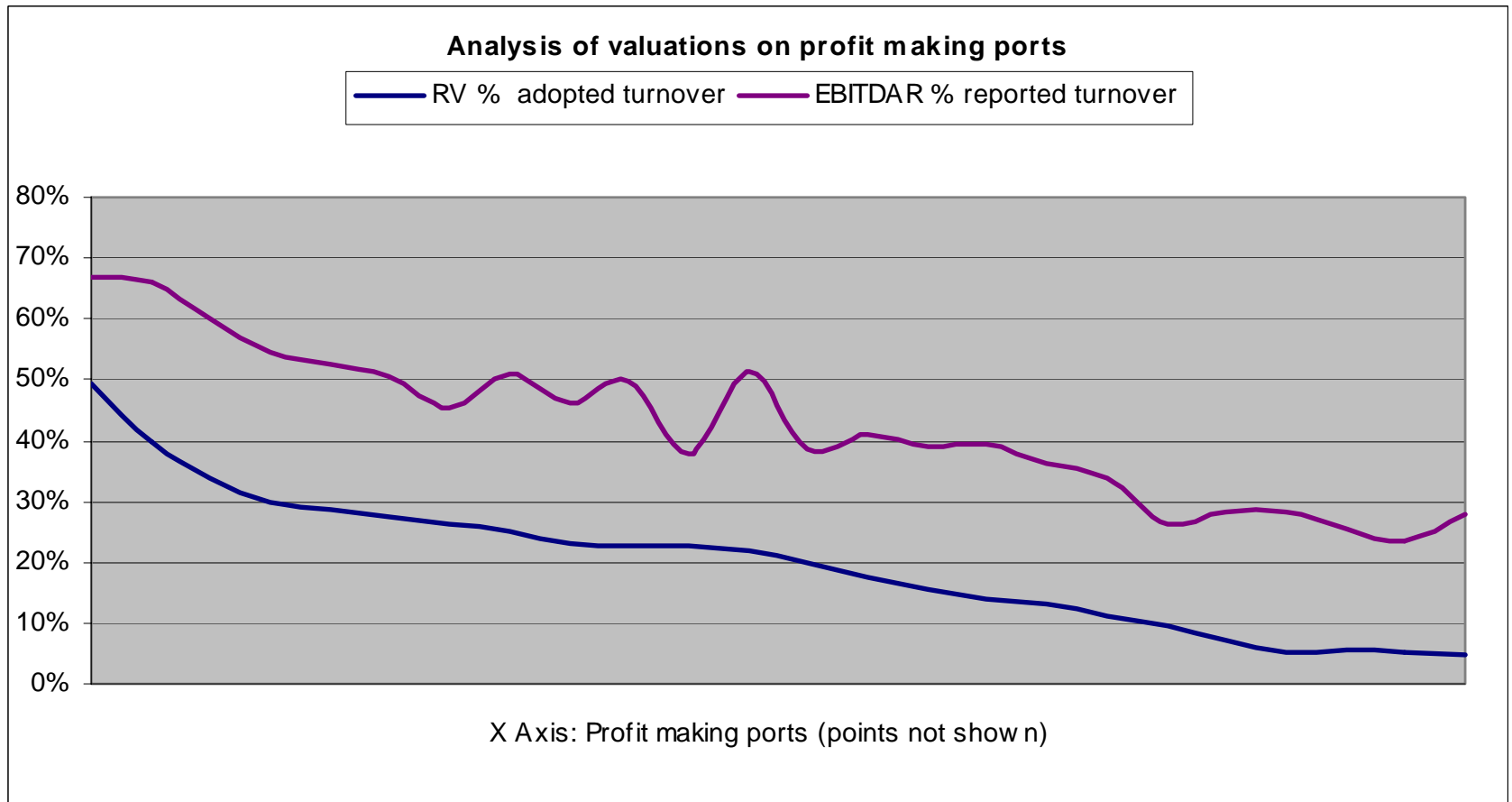
Issues – Tenant's Share (2)



- Tenant's capital
 - Depreciated replacement cost
 - Shipping costs
- Return on capital
 - 8% real WACC based on actual returns from established ports
- Contrast to “target” or “internal” rates of return
 - Sifting new investment
 - Capital rationing
 - Management tools
- Roll out to all ports

what do you value?

Results – profit making ports



what do you value?

Results – loss making ports



- The answer is not nil
- Who is the hypothetical tenant?
- Socio-economic benefits
 - Employment
 - Growth and competitiveness
 - Visitor numbers
- Valuation of socio-economic benefit
 - Not a new problem
 - Spot figure or contractor's basis

what do you value?

Conclusions



- Right First Time valuations
 - Cooperation and consultation
- The 30 year gap
 - Factual information
 - Little guidance on the key issues
- Implications for the ports
 - Removal of the RV cap
 - Increased spread of values
 - Transitional relief

what do you value?

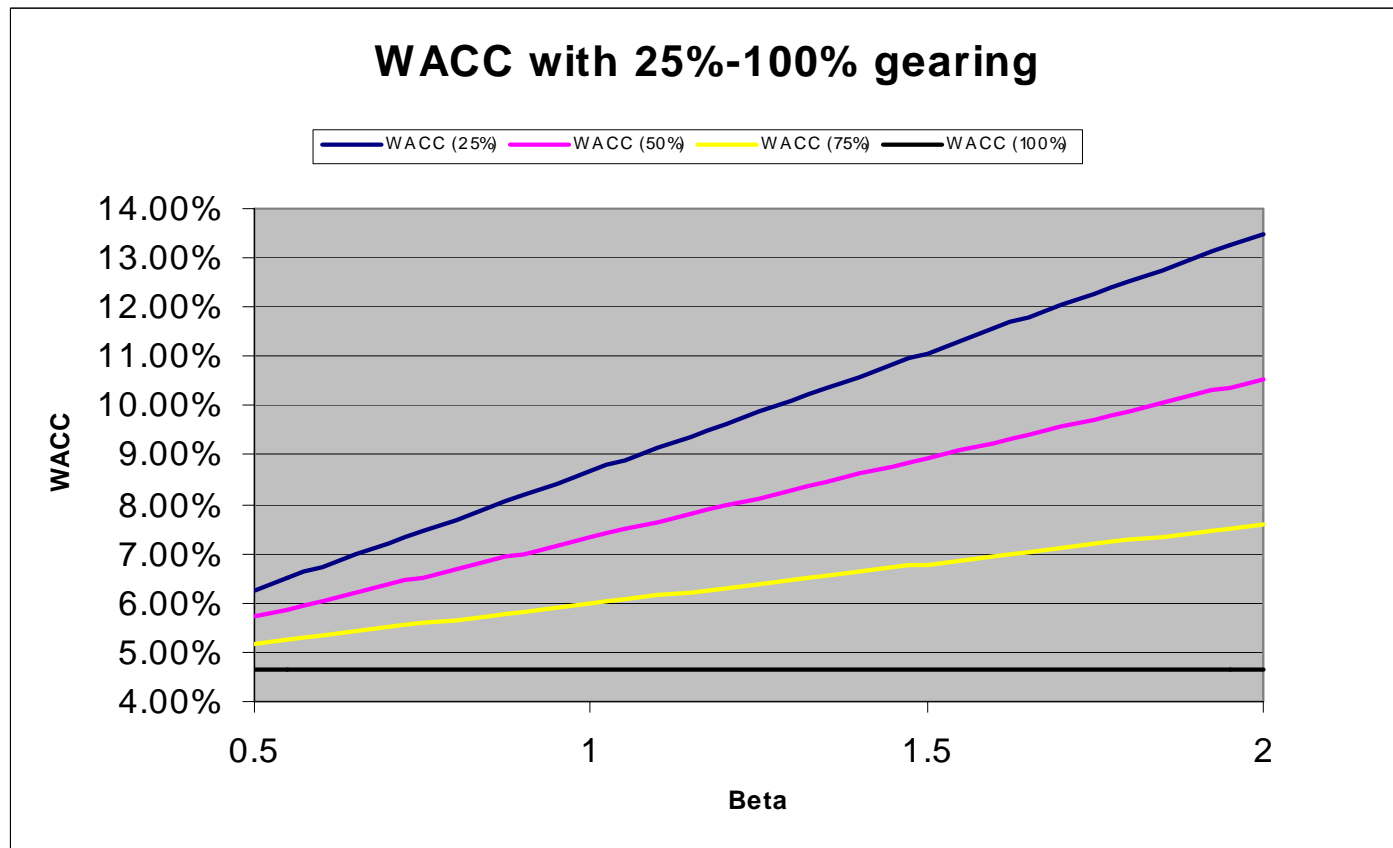
8% return on capital



- WACC (all real)
- Cost of equity (CAPM): 8.91% assuming
 - 3% risk free rate
 - 4.5% equity risk premium
 - 0.72 beta, and
 - 30% tax
- Cost of debt
 - 4.65%
- Suggests 6.78% but range better

what do you value?

Range of WACCs



what do you value?