Connect. Learn. Grow. Belong.

CoreNet Global | UK Chapter

Releasing Value from Complex Assets

Breakfast Forum

Wednesday 28th March 2012

The UK Chapter is grateful to its Annual Sponsors:

tp bennett architecture interiors planning

Vail Williams

CoreNet Global

Welcome

Matt Bigam, Bidwells

Matt.bigam@bidwells.co.uk

Programme

08.00am	Registration & Coffee
08.30am	Introduction
08.40am	Presentation
09.20am	Q & A
09.45am	Close

Upcoming Events

Stratford City regeneration:	17 April 2012
S&PP Knowledge Exchange:	June 2012
Joint BBP event:	21 June 2012
Summer Party:	21 June 2012
Awards Breakfast:	27 November 2012

Manufacturing and Industrial

CoreNet Global | UK Chapter

- c12.8% of UK GDP
- c55% of UK total exports
- 11% of employment in the UK
- 3/4 of Research and Development spend in the UK is by the M&I sector
- 70% of the sector are innovation active (whole UK economy 58%)
- 2/3 of sector offer services on the back of their products
- 1/7 of manufactures who had shipped production off shore, are bringing this activity back
- 50% of capital expenditure in the sector is in intangible assets such as brands, training and design.
- There are approximately 133,000 manufacturing companies in the UK

Sources: EEF / BIS / Prospects UK / BDO / Baker Tilly

Marketplace Considerations

- Globally competitive market
- Political agenda
- Supply chains and partnering
- Production or output quality
- Commodity pricing volatility
- The green / sustainability / carbon agenda
- Currency fluctuations
- Transportation costs
- Access to finance
- Regulations, legislation and tax
- Employee retention and skilling
- Consumer or business disposal income

Each Industry in the sector has specific input pressures but most have high set up costs increasing barriers to entry and exit

The Link to CRE

- The sector is dynamic and responsive to the global business environment but Real Estate is often not able to be so malleable.
- Usually a mix of Real Estate assets across multiple countries including R&D, Production, Processing, and Office
- Real Estate has to provide efficiencies or value add opportunities to contribute to a business competitive edge
- Cost reduction and cost avoidance for live assets, expansion plans or legacy portfolios
- One size does not and can not fit all, but best practice can be shared

CORENET M&I:

We are looking to engage with the sector to develop an active and interesting programme whilst providing access to tangible Real Estate knowledge and best practice.

Recent Headlines

The Telegraph

GlaxoSmithKline to invest £500m in UK and create 1,000 jobs after cut in patent profits tax

theguardian

Nissan to create 2,000 new jobs by building compact car in Sunderland

FINANCIAL TIMES

Jaguar Land Rover recruits 1,000 workers

The INDEPENDENT

New fighter jets contract to provide 25,000 new UK jobs over 30 years

Connect. Learn. Grow. Belong.

CoreNet Global | UK Chapter

Presentation

Katie Kopec, JLL
Jason Peckmore, Shell

Katie.Kopec@eu.jll.com
Jason.peckmore@shell.com

Presentation

Katie Kopec, JLL

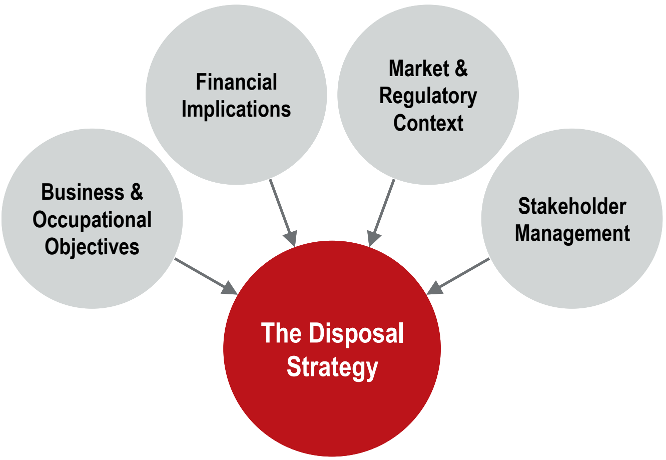
Katie.Kopec@eu.jll.com

Introduction

- What are the business drivers creating surplus assets?
  - Globalisation and emerging markets
  - Cost reduction and increasing operational efficiency
  - Mergers, acquisitions and collaboration
- What are we dealing with?
  - Owner occupied specialist facilities developed over time
  - Big complicated often non- conforming users
  - Large scale manufacturing / r&d where no market for existing use
  - Remediation/contamination
  - Low / no value

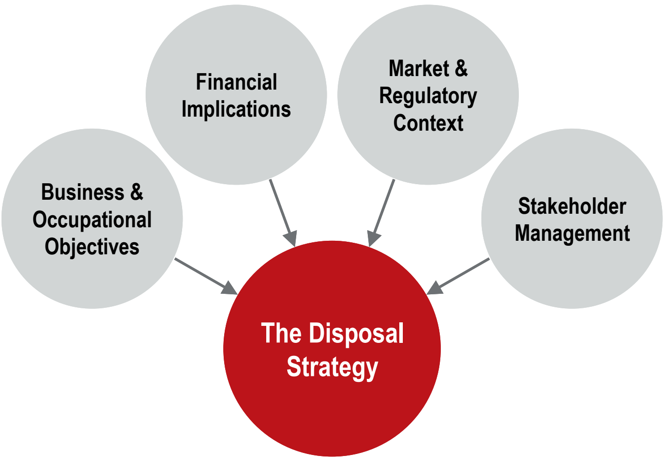
Key Issues to Consider

- Business and occupational objectives
  - Operational integrity
  - Risk profile
  - Timing / phasing of final decision
  - Legacy, PR and CSR issues
  - Remediation
- Financial Implications
  - Implications today and tomorrow
  - Maximise value, minimise liabilities or both?
  - Cost of write down- which bit of the business ?
  - Willing to pay and who pays for spend to exit ?
  - Taxation

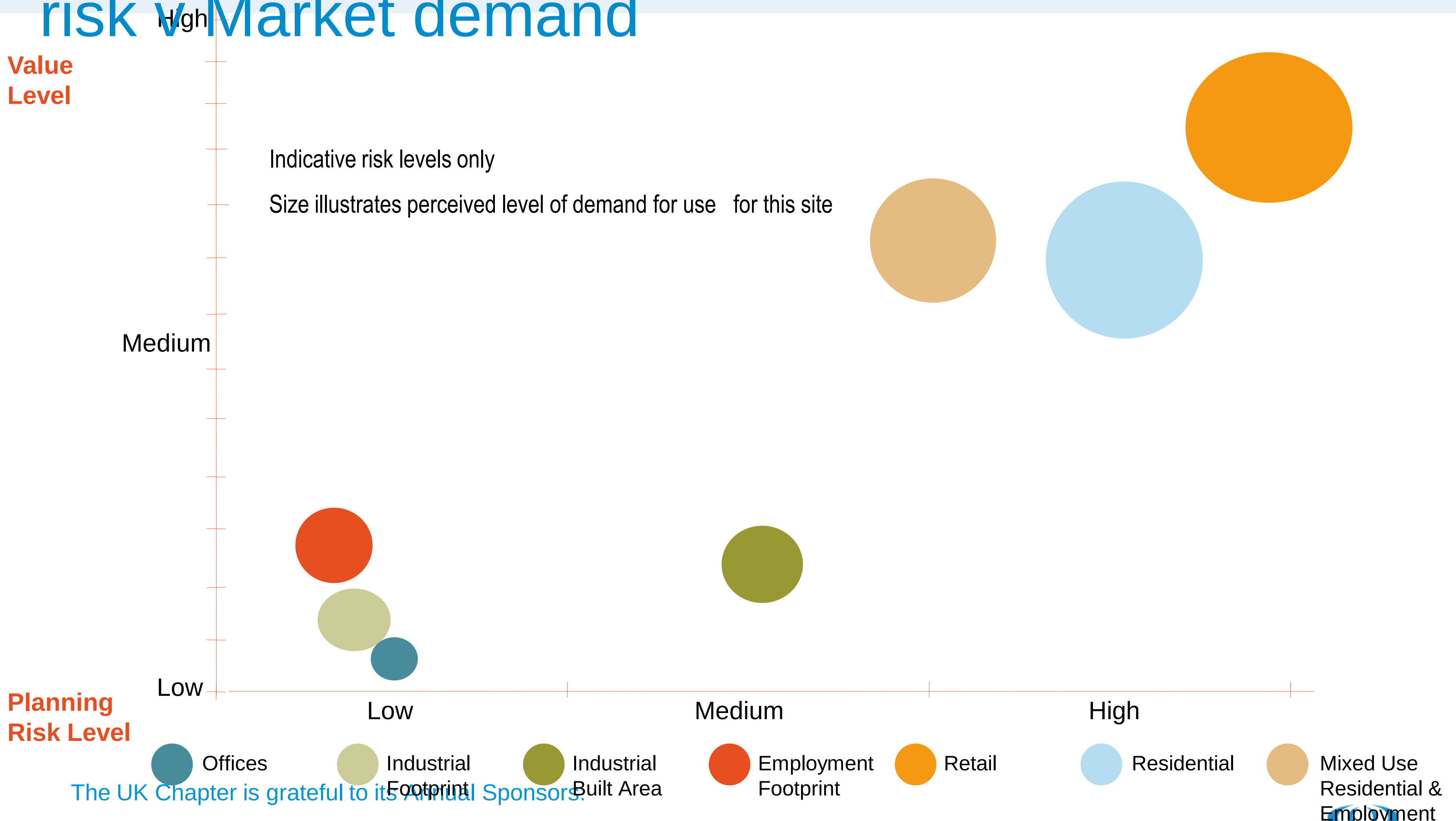


Key Issues to Consider

- Market and Regulatory context
  - Who is your market?
  - Specialist solutions
  - Planning and alternative use opportunities
  - Licensing, regulatory framework and decommissioning
  - Need to sell to right purchaser
- Stakeholder management
  - Stakeholders – who are they?
  - Full or partial exit?
  - Risk / timing / phasing
  - User profile
  - Heritage, legacy and environmental issues

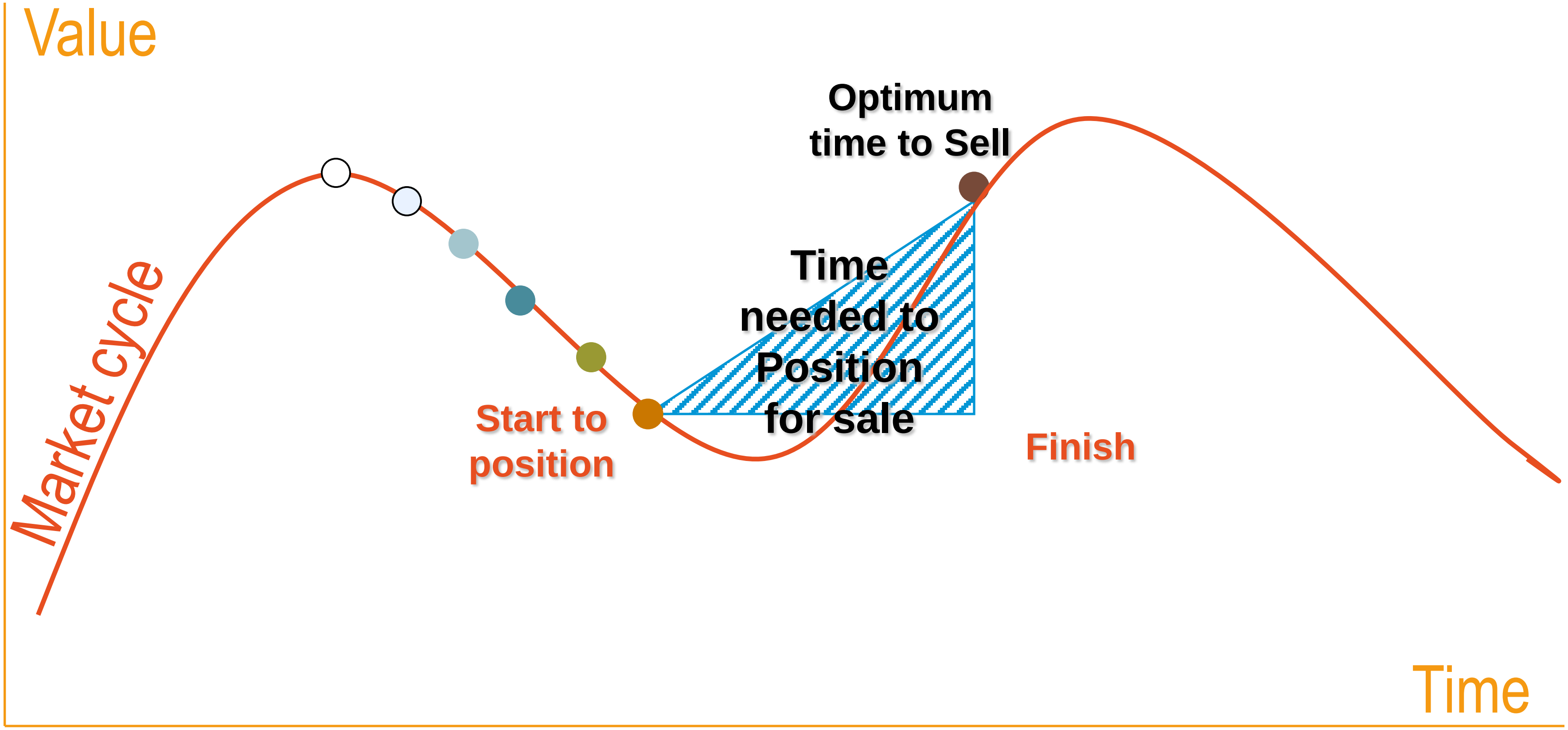


Indication of Value v Planning risk v Market demand



The UK Chapter is grateful to its Annual Sponsors:

Getting the timing right



To reposition an asset may take 2 years or more – if you wait until asset values are high, you'll probably miss the cycle.

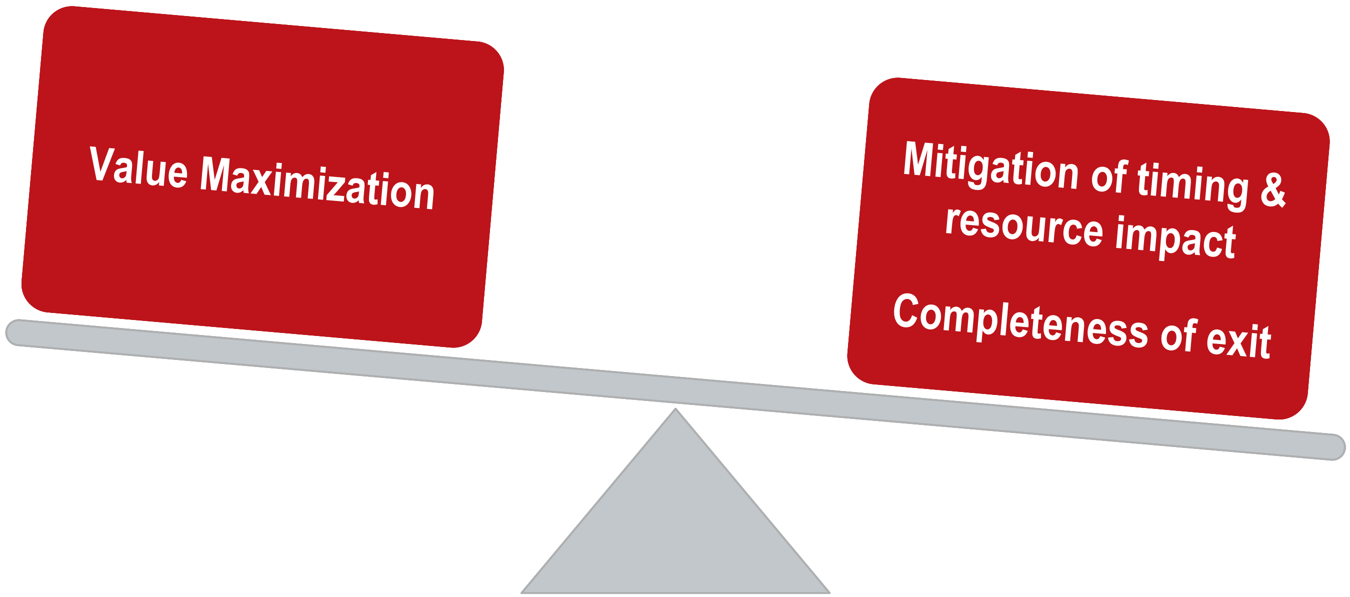
Options and Solutions

Development Company	Joint Venture	Portfolio Sales	Joint Venture	Asset Work out	Sale & Leaseback	Straight Sale	Lease
Create vehicle to own surplus assets – sell vehicle	Bring in development partner. Sell assets at current value into Joint venture vehicle, participate in upside	Work out assets and undertake Portfolio sales	Bring in development partner. Sell assets at current value into Joint venture vehicle, participate in upside	Take through planning and change of use then sell with benefit of consent	Sell overall site and lease back for short term or only partially	No operational consideration – sell	initially let to 3rd part – then either hold or sell

Single Asset Disposal

	Joint Venture	Asset Workout	Sale & Leaseback	Straight Sale (unconditional)	Straight Sale (conditional to planning)	Lease to 3rd Party
Value	🟢	🟢	🟢	🟠	🟢	🟢
Risk	🔴	🟢	🟠	🟢	🟠	🟠
Capital Investment	🟠	🟠	🟢	🟢	🟢	🔴
Level of Exit	🔴	🟠	🟠	🟢	🟢	🔴
Timing	🔴	🟠	🟢	🟢	🟠	🔴
Resource	🔴	🔴	🟠	🟢	🟢	🟠

Getting the right balance



Joint Venture | Asset Workout / Sale & Leaseback | Straight Sale | Lease

Partnership Options – Who?

1.Gift or pay to take it away – remediation specialists

2. Straight Sale: The site is sold 'as is'. The developer takes all the risk and a result the upfront purchase price is likely to be lower. – Strategic Land Specialists

3. Structured Sale with Upfront and Deferred Payments:

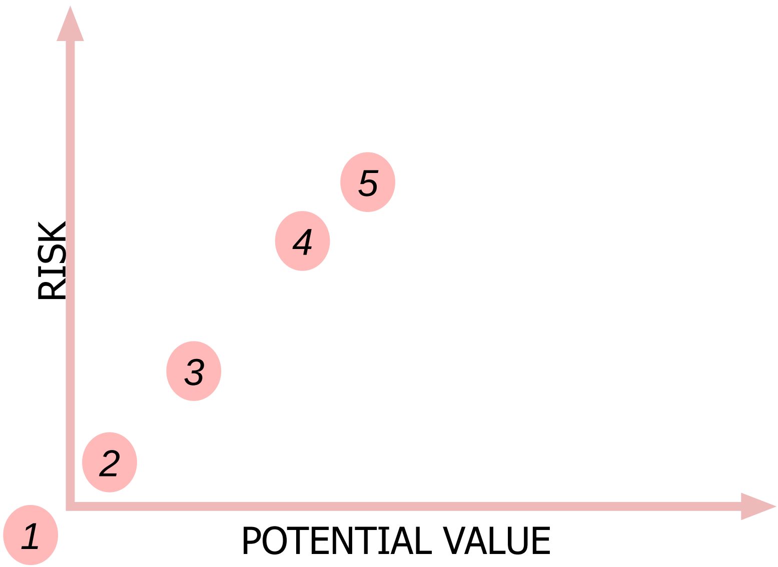
– Master Developer

4. Subject to Planning Deal:

- Developer for end use

5. Joint Venture/Development Agreement:.

- All of the above

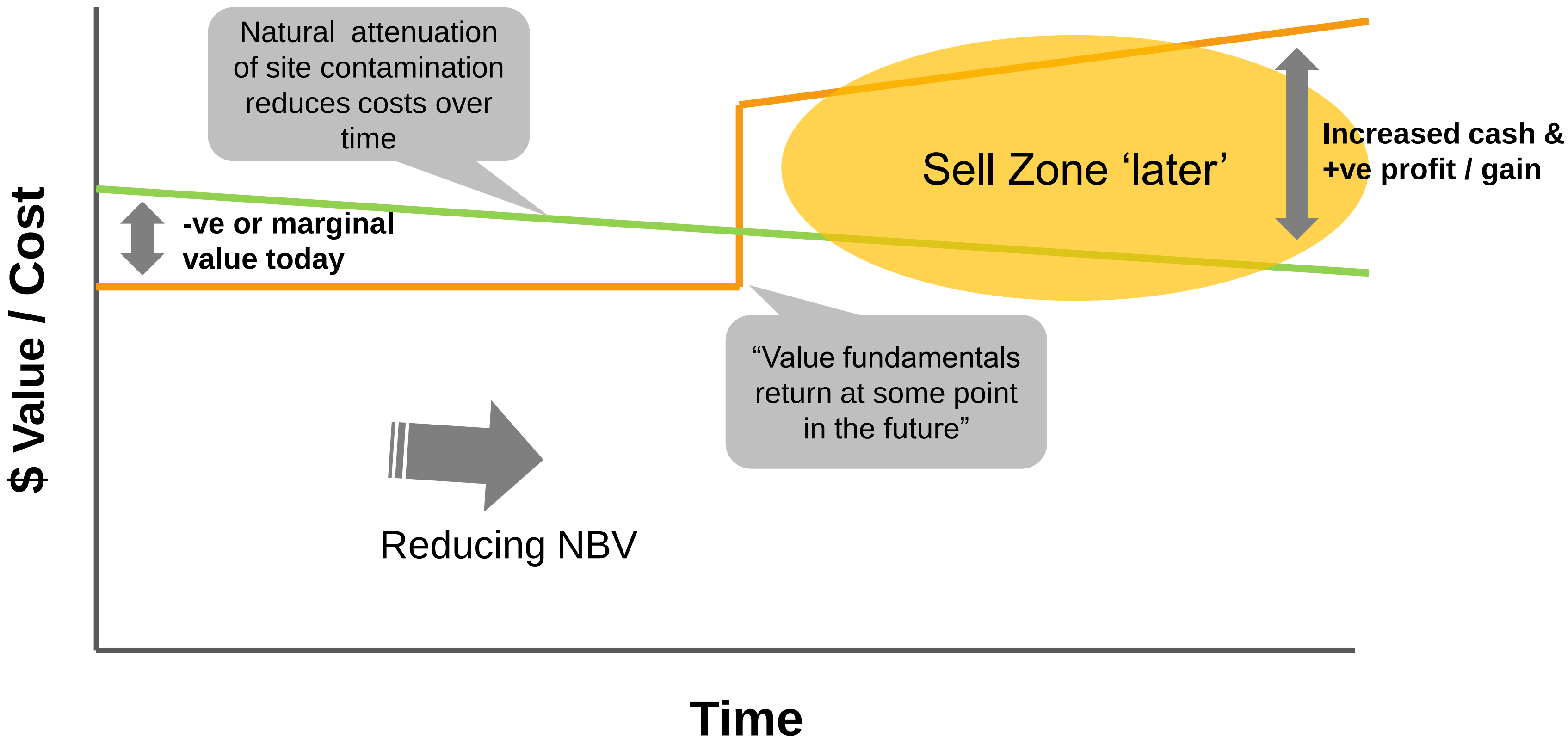


Re-Setting The Definition of Value

"Everything that can be counted does not necessarily count; everything that counts cannot necessarily be counted"

Albert Einstein

A Familiar and Frequently Held View on Value...........



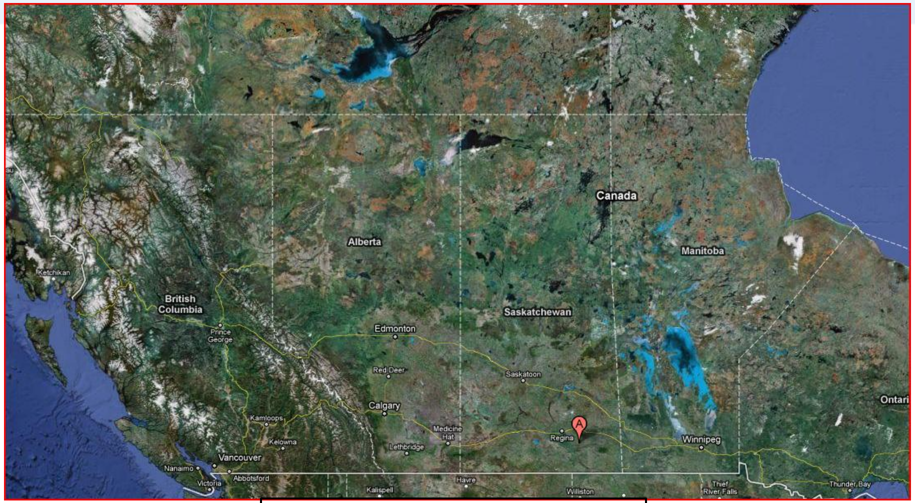
Connect. Learn. Grow. Belong.

It's all about Timing…………..

CoreNet Global | UK Chapter

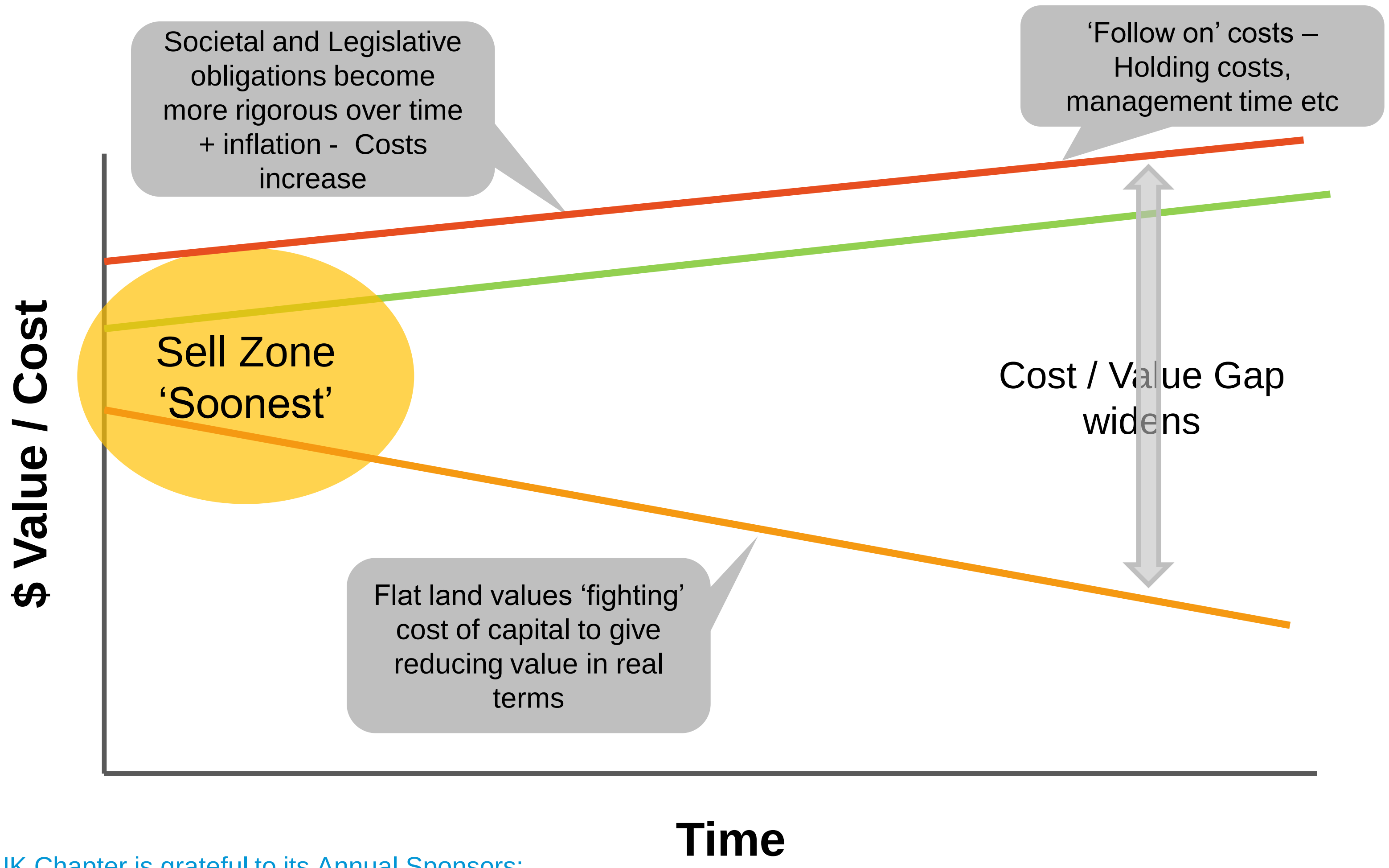
Tyvan, Saskatchewan, Canada

- Surplus and vacant ½ acre site
- Located in the Hamlet of Tyvan approx 9 hours east of Calgary
- Small diminishing farm community (pop. est. 50)
- Former Commercial Fuels site - operations closed in **1965 – 47 years ago**
- Market value today <$1000
- No market – possibly the Rural Municipality of Wellington if remediated
- Cost to remediate $60K
- Holding Costs $12k annually
- Had offer in 1971 to sell for $1 with no remediation required – **Shell declined**



Surplus 47 Years

A More Realistic View on Value



The UK Chapter is grateful to its Annual Sponsors:

tp bennett architecture interiors planning

Vail Williams

Caveat: Assumes no clear HAU 'step change' in value

Making the Market if it doesn't Exist

Shell has c 500 surplus downstream sites globally

Re-focused internally through creating a formal business focused on surplus liabilities and assets – 'Enterprise First' behaviours.

Accelerated programme to divest surplus / legacy assets

No current market for end to end transfer of surplus on a 'portfolio' basis

Need to be creative and challenge the market to innovate

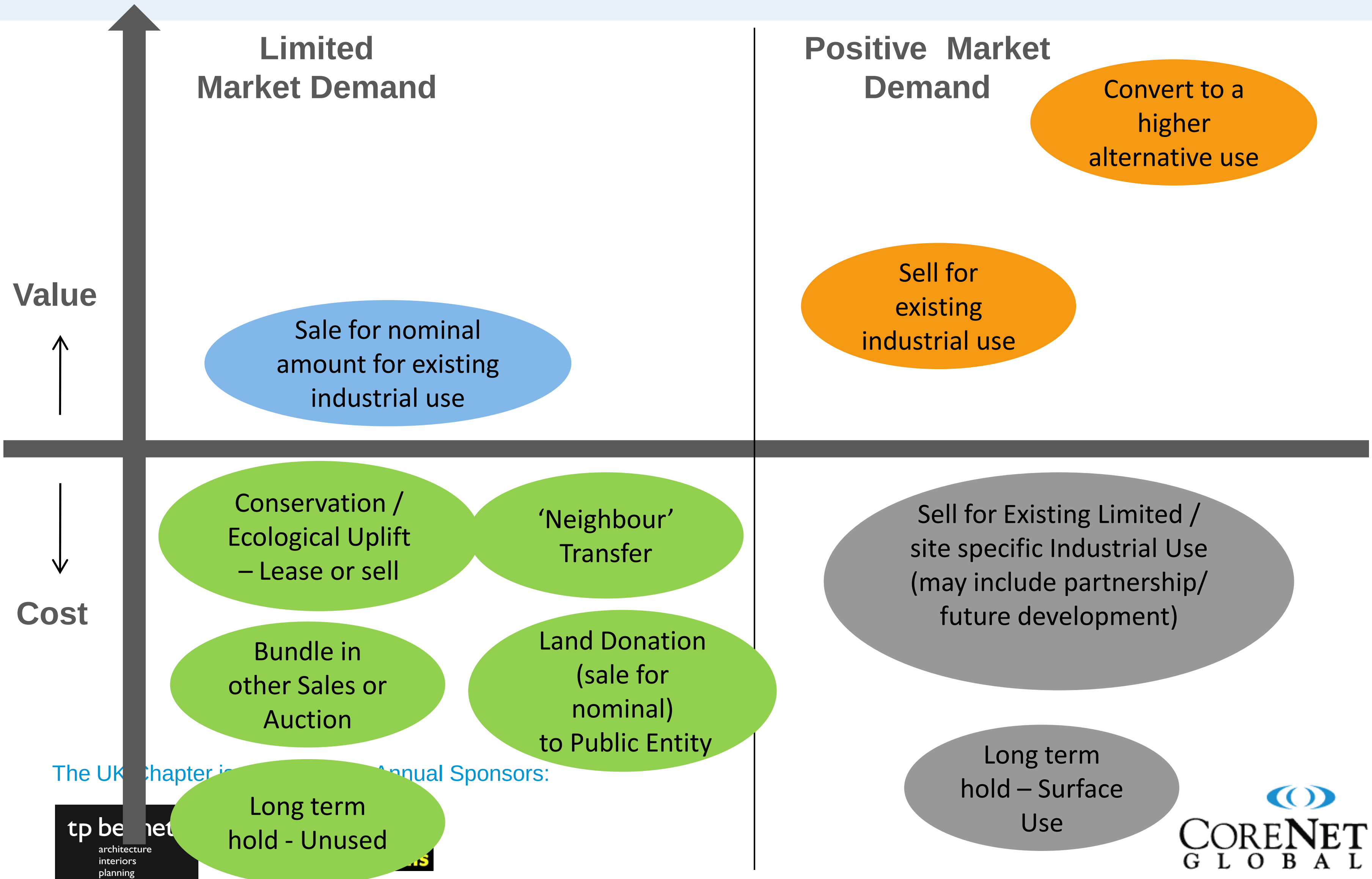

High liability, High value


High liability, Low value


Low liability, High value


Low liability, Low value

Segmentation of Divestment Options



Creating Value through difference

- Most ‘traditional’ negotiations seek to trade or erode value from each party
- More sophisticated negotiators seek to create collective value in a deal and negotiate the distribution
- Identify commercial arbitrage through:
  - Differences in WACC
  - Different attitudes to risk
  - Differentials in costs of delivery e.g. sector supply chain leverage
  - Differentials in overhead costs etc
  - Looking at things through a different ‘lens’ e.g. a multi-year remediation programme might be viewed as a cost by the corporate……..but as an income stream / annuity by a service provider that can leverage a higher market capitalisation / valuation / lower cost of debt etc.

CoreNet Global | UK Chapter

A Shameless Promotion of a Unique Opportunity!

Expressions of Interest Most Welcome!

Helping the Market see the Opportunity in Industry

Kruunuvuori, Laajasalo - Finland

- Shell sold the majority of its Downstream business in Finland in 2010
- 8.4 ha site, 10km from Helsinki and directly across the bay from the city
- 3 underground caverns with c 300,000m^3 volume historically used for oil storage – 300m long, 30m high, 20m wide
- Waterfront site sitting within wider area of regeneration - 45,000m^2 of residential building rights secured
- Considerations and Challenges:
  - Greatest value to Shell or Purchaser of business? Shell
  - 'Carve out' into SPV recognising risks of expropriation, pre-emption – Share sale rather than asset sale
  - Planning – risk and opportunity for +ve influence
  - Remediation – Getting a purchaser comfortable with the land and caverns
  - What use for the caverns? CHP? Car parking? Boat storage? Urn storage!
  - Selling the opportunity

Connect. Learn. Grow. Belong.

CoreNet Global | UK Chapter

Kruunuvuori – The Opportunity

Kruunuvuori represents one of the best development opportunities in Finland

Rarely does a privately owned asset present itself to the market in a city as attractive as Helsinki; and in an area where the City is currently rezoning the land to provide a prime new residential quarter. The site is owned by the holding company Kruunuvuori Real Estate (KRE), a 100% subsidiary of Royal Dutch Shell plc. KRE is keen to promote this opportunity on an international stage as its appeal extends beyond Finland's shores. This document invites you to express your interest in putting forward a detailed proposal for purchasing KRE and developing the site.

- One of the **most prominent** residential developments in Helsinki
- **Excellent location** on the sea shore opposite to Helsinki City Centre
- Estimated amount of residential building rights is **45.000 sqm**
- **Entire** Kruunuvuorenranta area will be built between 2011-2020E
- Zoning **in force** 2013E
- The site is being sold **remediated** and fit for redevelopment to residential use

Connect. Learn. Grow. Belong.

Kruunuvuori – The Opportunity

Stunning views out to sea

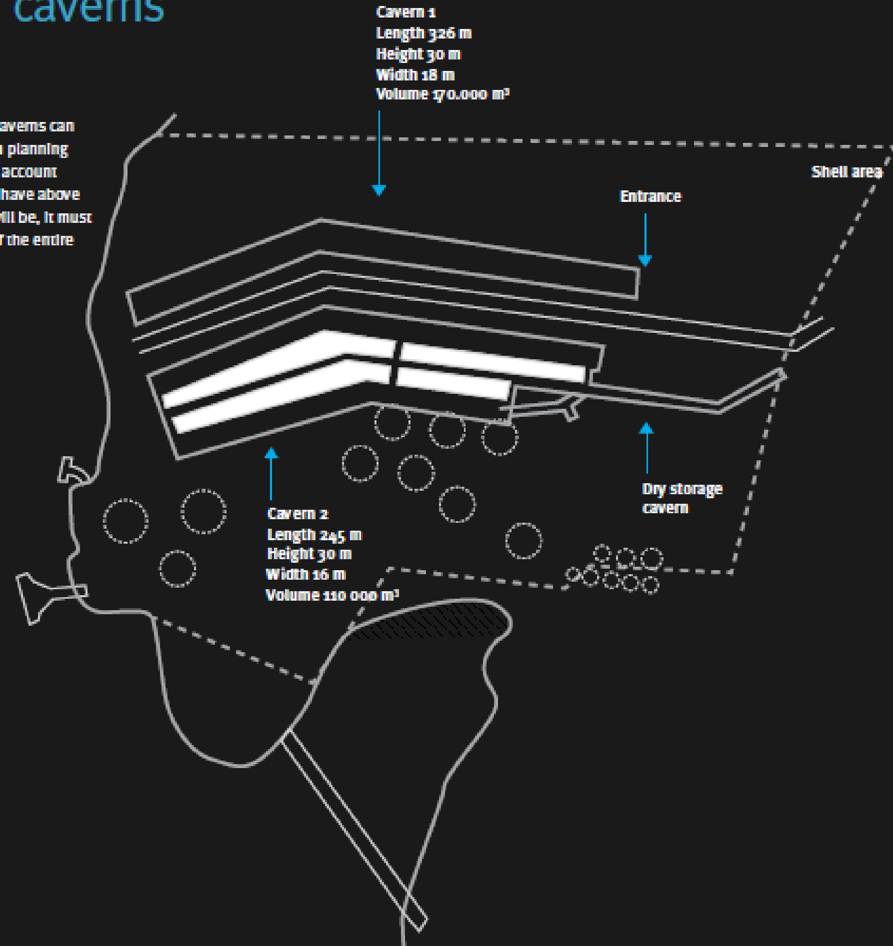
Caverns

There is no binding decision that limits the future uses of the caverns

The site includes three caverns in total; two underground caverns and a dry-storage cavern. Constructed in 1972, Cavern 1 is 170,000 cubic meters and cavern 2 is 110,000 cubic meters, and they were used for storage of middle oil products and government's reserve for contingencies.

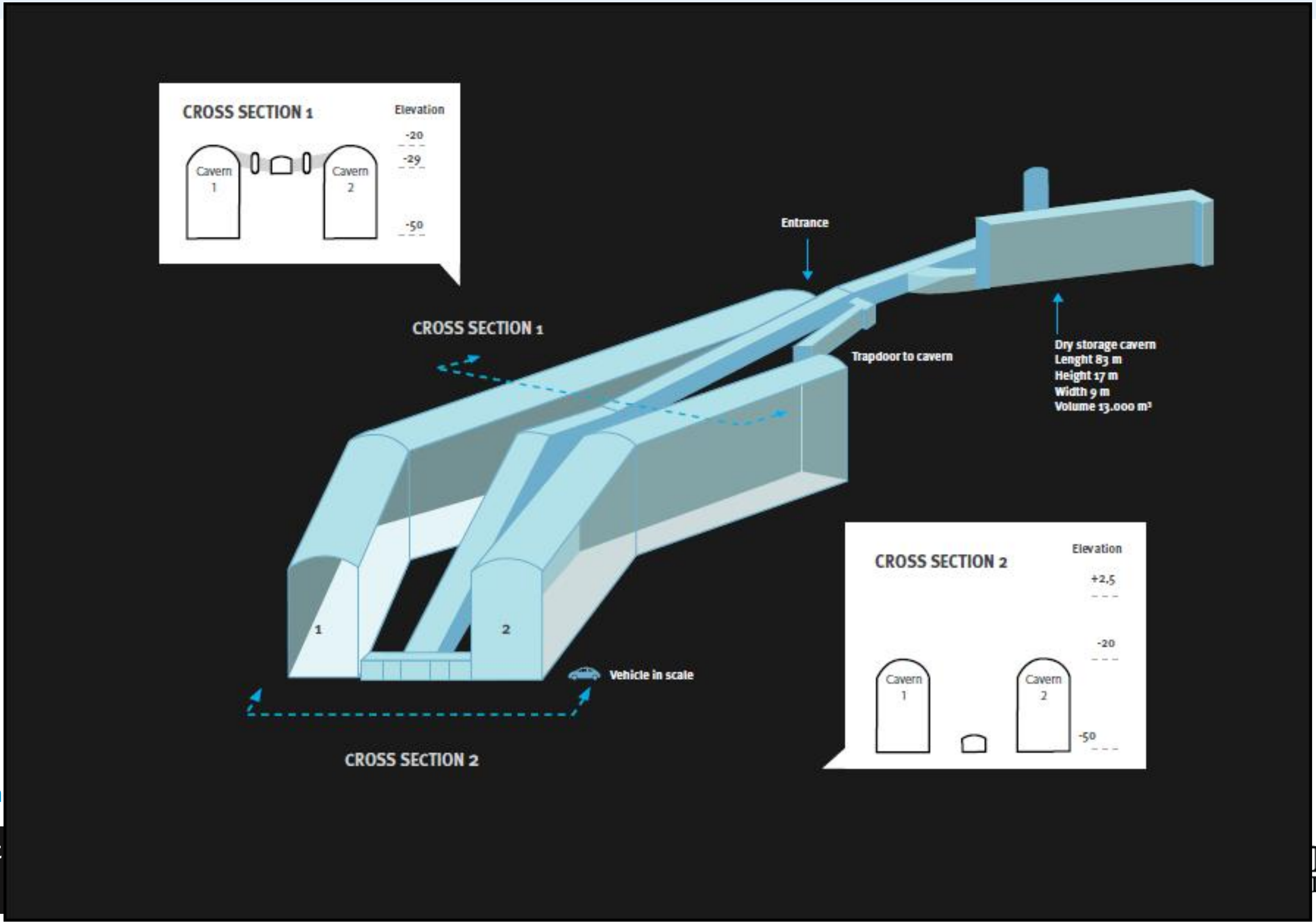
The dry-storage cavern is situated underneath both Shell's freehold (c.10%) and underneath land owned by The City of Helsinki (c.90%). The entrance for the dry-storage cavern is from the land owned by The City of Helsinki. Caverns 1 and 2 are located entirely at Shell's freehold site. Both underground caverns have access from the Shell land, but the main entrance is from the land owned by The City of Helsinki. A legal right of way, and a lease, secure this access in law.

With an innovative approach the caverns can be adapted for a variety of uses. In planning the future use, one must take into account the effects the planned use might have above ground. Whatever the future use will be, it must fit the image and natural setting of the entire Kruunuvuorenrata area.



Th

t


CROSS SECTION 1
Elevation
-20
-29
-50
Cavern 1
Cavern 2
Entrance
CROSS SECTION 1
Trapdoor to cavern
Dry storage cavern
Lenght 83 m
Height 17 m
Width 9 m
Volume 13.000 m³
1
2
Vehicle in scale
CROSS SECTION 2
Elevation
+2,5
-20
-50
Cavern 1
Cavern 2
CROSS SECTION 2

Th

t

Releasing Value from Complex Assets

- Be clear to understand ‘**what constitutes value’** for your organisation / client?

- Remain focused on **cost v value** and look for tipping points;

- **Get creative**. Spend time upfront to really thing about:
    - **Where** is the market?
    - **How** to position the opportunity?
    - **De-risking** the site as far as reasonably possible
    - Help the market see the opportunities that **you see** or allow the market the opportunity to find the angles that **you don’t see**

- **Focus on value creation** as well as value distribution

Questions?

MI Group

Jason Peckmore, Shell

Jason.peckmore@shell.com

Focus and Structure of M&I

- Your Community …..Your Agenda……..
- Developing a calendar with for a M&I focused agenda
- Planned Forthcoming Events:
  - June: An event with a major soft drink producer within the M25;
  - September: A snap / breakout session at the UK Summit
  - October: An event / Knowledge Exchange hosted by a major alcoholic drinks producer

Focus and Structure of M&I

CoreNet Global | UK Chapter

Oil/Gas	Mining	Auto	White / Brown Goods	Energy Utilities	Heavy Ind.	Pharma	Aero	Textiles	Pulp Paper	Food

Industry Segment Led?

Common Issues Led?

- Development of locational strategy
- Land assembly for expansion
- Developing markets issues and opportunities
- Accessing government incentives and assistance programs
- Complexities of global / multi sites supply chain
- Trends in sustainability practices
- Role of Facilities Management in site operations
- Statutory issues, safety, health and environmental
- Role of Real Estate in M&A/Divestment
- Community and corporate social responsibility
- Management of surplus and underutilised properties
- Planning for end of life and exit strategy
- Site remediation and risk mitigation on transfer

Focus and Structure of M&I

Oil/Gas	Mining	Auto	White / Brown Goods	Energy Utilities	Heavy Ind.	Pharma	Aero	Textiles	Pulp Paper	Food

Industry Segment Led?

Common Issues Led?

- Development of locational strategy
- Land assembly for expansion
- Developing markets issues and opportunities
- Accessing government incentives and assistance programs
- Complexities of global / multi sites supply chain
- Trends in sustainability practices
- Role of Facilities Management in site operations
- Statutory issues, safety, health and environmental
- Role of Real Estate in M&A/Divestment
- Community and corporate social responsibility
- Management of surplus and underutilised properties
- Planning for end of life and exit strategy
- Site remediation and risk mitigation on transfer

Focus and Structure of M&I

- UK Chapter but recognise wider EMEA + reach?
- Ideas on how best to extend the reach across the wider region?
  - Webinars
  - Travelling agenda across European Summits
  - Publication of post event material (papers and videos)
  - Word of mouth and advocacy

Event Sponsors

Jones Lang LaSalle®

Real value in a changing world

The UK Chapter is grateful to its Annual Sponsors:

tp bennett
architecture
interiors
planning

Vail Williams

Annual Sponsors

The UK Chapter is grateful to its Annual Sponsors:

tp bennett
architecture
interiors
planning

Vail Williams