Port of Melbourne – 2025 Port Market Rent Inquiry Scope and Process Paper

Written submission from Melbourne Cement Facilities following a verbal interview conducted with the ESC 12/11/24.

Emailed to: transport@esc.vic.gov.au

Attention: Price Monitoring and Regulation Division – Transport
Essential Services Commission
Level 8, 570 Bourke Street
Melbourne VIC 3000

Process

- Melbourne Cement Facilities (MCF) and Port of Melbourne (PoM) engaged in the prescribed Market Rent Review (MRR) process commencing in November 2023.
- Both parties complied with the process and timelines set out in the Customer Charter.
- MCF rejected the initial proposed increase from PoM,
- As per the defined MRR process MCF looked to engage a professional third party to appraise the market rent for our site.
    - The first Commercial Property valuer that we attempted to engage (MCF had used them previously) declined the opportunity citing the following:
        - *... the Port Authority has been extremely secretive with any leasing arrangements/dealings (particularly over the last five years). This has been done to protect their position, make sure tenants aren't aware of what others are paying and assist increases to the ground rentals...*
        - ...The privatisation has really been the point where this annual rental increase environment has taken off. Their strategy has worked. As they increase one rental, they use that to support a position on the next property...and so on and so on. As they hold the rental evidence (with it not being in the public domain) it's very hard to refute...
- MCF engaged an alternate Commercial Property valuer to give an independent market appraisal of the site,
    - MCF engaged CBRE to conduct the MRR.
    - PoM engaged a different Commercial property valuer,
    - MCF used the information generated to negotiate with Port of Melbourne
    - This was done successfully with PoM and MCF reaching a negotiated outcome after some to and froing.
    - MCF has sought approval from CBRE to release the market rent review report they generated for the 26/27 South Wharf property. We are currently waiting for the approval.
- Port of Melbourne offered initially a 7.8% MRR increase
    - This is in addition to the annual increase that the lease dictates
    - MCF's lease clause states the annual increase is to be the greater of:
        - 4% or
        - cpi + 1.5%

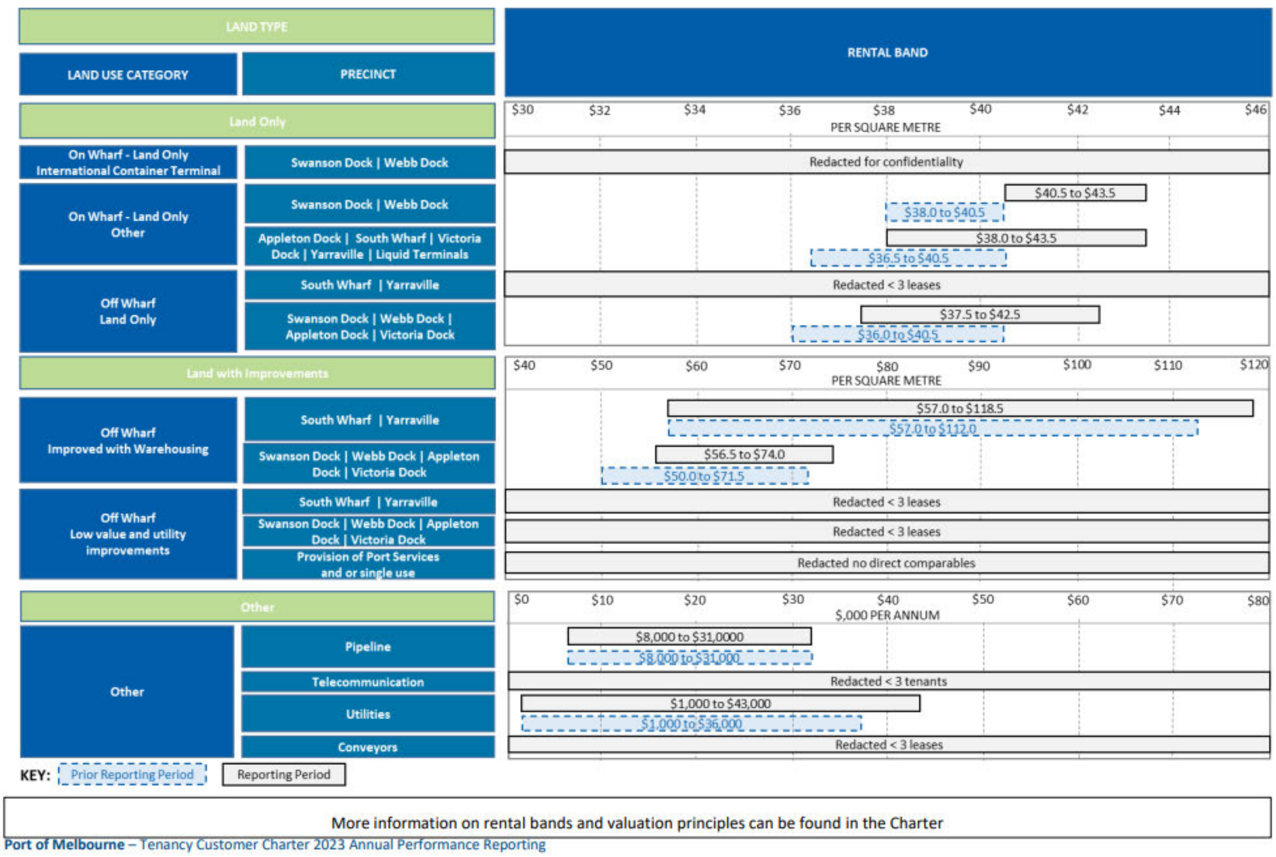
      this is the equal highest annual rent increase in the Port of Melbourne properties benchmarked

- Port of Melbourne agreed to a MRR (package):
    - 4.1% MRR increase,
        - timing of implementation to be linked to the completion of an outstanding CAPEX project, and
    - 4% cap on the lease increase clause for 2024/25 period only

<u>Issues</u>

- Melbourne Cement Facilities is a 28172m2 site located in the South Wharf zone of Port Melbourne.
- MCF has a lease until 2043.
- MCF is an on wharf – land only lease.
- MCF cross docks around 2.5million tonnes per annum of cementitious products, generating approx. $11M in wharfage costs for the Port.
- In 2022/23 MCF was paying $[redacted]m2 for the 20662 Lease area.
- In 2023/24 MCF was paying $[redacted]m2 for the 20662 Lease area. (above the banding zone)
- Benchmarking of the Port of Melbourne property reports (online) showed that properties in the South Wharf area were in the lease banding $[redacted] – $[redacted]m2 (table 2 below - reporting period ending December 2023)
- MCF was within this range prior to the MRR.
- PoM was seeking a MRR increase of 7.8% which would have set the upper benchmarked banding value at $[redacted]m2 (rounded up) for the Port Customer Charter

TABLE 2: ANNUAL RENTAL BAND



- MCF negotiated from the point of view that we were already within the relevant rental banding and that the purpose of the MRR was to adjust leases that were out of step with the market. MCF was not out of step.
- MCF has more than $350M in assets on the 20662 leased area,
- MCF has added further value to the site through rehabilitating the sites truck hardstand area,
- PoM highlighted the Sites Utility as a significant contributor to the claimed MRR increase.
- PoM Capital works (still in progress) have reduced the Ports Wharf Load Rating of 26SW
    - MCF cannot traffic the wharf from east to west due these incomplete works,
- PoM Capital works (still in progress) impacted the ability to complete the $100M Silo-D project, leading to some civil works being removed from the fixed price contract to achieve Principal Contractor practical completion,
    - PoM acknowledged this impact and has withheld the MRR increase until the Silo-D bypass road (impacted by PoM capital works) is completed and verified trafficable.

<u>Summary</u>

- MCF achieved a negotiated outcome with our MRR
- MCF would query why there was a need for an MRR increase when we were already benchmarked within the banding data.
- MCF recognises the monopoly nature of the PoM lease, and that the defined process for disagreements would cost more than any amounts disputed, except in the largest Port Leaseholds.
- MCF has a long-term lease,
- MCF reiterates that we have the equal highest lease increase clauses in the benchmarked port data,
- MCF is the upper benchmark for $/m2 today, and with the annual lease increases will likely set the benchmark lease costs in 4 years time when the next MRR is due.
- MCF values stability and consistency in our partnership with Port of Melbourne,