OPINION
July 16, 2017 12:01 a.m. Updated 07/17/2017
**LETTER TO THE EDITOR**

# Taxi medallions worth half a mil? No chance

## Basic math and the market's behavior show the right to own a yellow cab is not worth $500,000

To the Editor:

In May 2015, under the headline “Why the NYC Medallion is Alive and Well, and Will Survive!”, Matthew Daus wrote that “despite Uber and Lyft’s onslaught of the industry by predatory pricing techniques, there has been a very nominal decrease in taxi ridership and revenue in the taxi industry, attesting to the health and well-being of New York City’s economy and the survival of the medallion.” He went on to state erroneous and misleading Taxi and Limousine Commission data, failing to acknowledge the role the 2012 fare increase had on ridership, and thus declaring that the rate of ride-hail share gains was falling. At best, this logic was sloppy. But these conclusions have since been proven diametrically wrong. Why does he remain so optimistic about the future of the medallion system now, when trips and fares are falling faster than any time in the industry’s history?

More importantly, his recent op-ed, "The real story of taxi medallions," should have provided the basic inputs he used to determine that a New York City medallion is worth $500,000. I don't believe one can get there without unreasonable assumptions unsupported by current market conditions.

If he knows of even one management company in the city willing to take on new medallions, he should name it. The range of monthly fees among the management companies still paying lease fees to passive medallion owners is $1,200 to $1,500, with perhaps an outlier or two at $1,900. These payments are related to longstanding relationships, not current market conditions as evidenced by companies' refusal to take on new medallions at any lease price. If medallion owners refuse to take on any new medallions, that implies free cash flow of a medallion is currently zero.



Even using the midpoint of the payments still being made between insiders (ignoring the clear market signal that free cash flow is zero), $18,000 per year in free cash flow for 25 years (a long time given the end of yellow cabs' oligopoly), discounted at the 9% yield on MFIN’s 2016 bond, equals less than $177,000 per medallion. Since taxi trips and cash flows are falling faster in 2017 than ever before, as Daus acknowledged, it stands to reason there is still downward pressure on lease payments.

It would require an increase in lease payments and cash flows despite the ongoing free-fall, and some very low discount rate, to produce a value of $500,000. Even if we discount the $18,000 for 25 years at 2%—a nonsensically low rate, given the risk—the value would be $350,000. Daus should provide his assumptions on the math behind $500,000 or stop stating that indefensible number publicly.

The op-ed said “discounted cash-flow analysis accepted by courts and banking regulators [is] $500,000,” citing that figure as if it were reasonable. What is Daus' explanation? The only non-foreclosure medallion transfers in June were priced at $230,000, $165,000 and $150,000. These figures make far more sense and help corroborate the math I provided.

The only way medallions recover is if supply caps are forced on the entire ride-hailing universe, and those caps probably need to be below the current number of operating vehicles. Customers—many registered voters—and the vehicle drivers forced off the road would be in full-throated protest.

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*The writer is a professional investor and analyst who recommended the short sale of Medallion Financial, a medallion lender, in December 2014 and has written extensively on the likely impact of ride-hailing on taxi medallion economics and loan performance in the asset class. He has no current positions.*