Efficiently utilising the marina basin area drives revenue.

Gerard McDonough

US marinas set to become 'asset class'

by Gerard McDonough MAI, FRICS

The marina industry has seen dramatic improvements over the past few years and lending institutions have taken notice and are actively participating in financing. The notable number of recent transactions in the US marina marketplace is evidence of this progress, and can be attributed first and foremost to a healthy economy and increased interest in boating. Loan-to-value ratios are typically in the 65% range, with the Small Business Administration in the 80% range.

There has been a strong upswing in investor demand for marinas here in the USA. The industry has recovered and is robust, and that's expected to continue in concert with prevailing economic conditions. Investors have recognised how difficult it is to permit a marina compared to other asset classes. This effectively ensures the durability of the income stream and prevents oversupply, which is something that affects other investment-type properties.

Investment banks and hedge funds have also recognised this asset class, which will result in further consolidation as larger investment companies enter the marketplace and acquire more marinas functioning under a singular umbrella-type operation. Interestingly, investors won't have to rely on their local or regional banks to get the funding they're seeking. The historically 'mom and pop' marina industry is transforming, with larger investment groups entering the marketplace and acquiring marinas, which will ultimately make marinas into their own institutional-type asset class. This will lead to the availability of detailed income and operating expense information for marina assets and allow for more transparency and more accurate analyses of the marina marketplace.

Outside the USA, Australia is already embracing this kind of detailed overview of the industry, giving it the capability to better gauge the health of its own marina industry. The Marina Industries Association (MIA) recently released its 2015 Health of the Australian Marina Industry (HAMI) survey, the purpose of which is to provide the industry with a comprehensive overview of the economic contribution of Australian marinas.

Much has changed for the marina industry since the mid-2000s when investors were looking at alternative developments on potential marina sites. The strategy at that time meant that the prices paid weren't meeting the typical investment returns expected on an income-producing marina property. In today's marketplace, marinas are being purchased based on their income-producing potential, and as overall demand increases, there may be acquisitions where buyers will also be giving credit to other types of upland development on the site. However, for the most part, seasoned marina and boatyard buyers will be focusing on the income-producing potential of the facilities as opposed to upland development potential.

Appraisers consider traditional methods by which market data may be processed into a value indication, such as the cost approach, the sales comparison approach and the income approach. Prior to the development of these, it's extremely important that the appraiser has a thorough understanding of the physical and location aspects of the facility, such as siltation/dredging requirements in the marina basin area, wind and wave action and potential attenuation issues, condition of the docks and bulkheads, and access to primary waterways. A property conditions report prepared by a qualified marine engineer is highly recommended, particularly for addressing required capital improvements.

In property valuation, the cost approach is based upon the proposition that an informed purchaser would not pay more than the cost of producing a substitute property with the same utility as the subject. The cost approach is particularly applicable when the property being appraised involves relatively new improvements that represent the highest and best use of the land, or when relatively unique or specialised improvements are located on the site and there are no comparable properties in the marketplace.

The primary issue in applying the

cost approach is the inherent difficulty in accurately measuring the accrued depreciation of the floating or fixed docks, dredging and bulkheads, for example, and the lack of truly comparable land sales. The omission of the cost approach in most instances does not compromise the reliability of the overall valuation process.

The sales comparison approach, for the most part, is extremely difficult to utilise due to the unique and varying physical and location characteristics of marina facilities. This approach is applicable when an active market provides sufficient quantities of reliable data that can be verified from authoritative sources. Office buildings, modern industrial, retail and self-storage, as well as residential apartment complexes, for example, vary in size, quality and condition. However, their general physical characteristics, when compared with their respective asset class, are relatively similar. Consequently, in most instances, a meaningful unit of comparison and resulting market value opinion can be derived via the sales comparison approach. However, marina facilities are extremely difficult properties to appraise using the sales comparison approach as their physical and location characteristics vary so much. Some have very limited upland, while others have significant land area and notable buildings on the upland. Price per slip has traditionally been used as a unit of comparison. However, because slip lengths can vary significantly, this can be a very misleading unit of comparison, particularly if average slip sizes are 30ft (9m) at one facility and 60ft (18m) at another. Whenever possible, price per linear foot of available slip space should be utilised as opposed to price per slip. The only time this approach can be used with any confidence is when one is comparing facilities that have limited upland area and improvements. Trying to compare a marina with just slips, limited upland area and limited services with a full service facility that has extensive upland area and notable repair and maintenance buildings can result in a very misleading conclusion.

The type and size of equipment varies at marine facilities and directly affects the income producing potential of repair and maintenance operations.

The income approach converts the anticipated benefits (dollar income of amenities) to be derived from the ownership of property into a value estimate, and capitalisation of the net operating income is the typical method that is utilised in developing the value of a marine facility via the income approach. Capitalisation rates for full service marina/boatyards are typically higher than for marinas that only offer slip rentals. Consequently, when determining an appropriate capitalisation rate, appraisers must select it from facilities that have similar type operations or the reliability of the concluded value will be compromised. Appraisers must also thoroughly understand how the capitalisation rates were derived and what expenses were considered in the development of the net operating income and, in addition to typical operating expense items, other items should include off-site management fees and reserves for replacement. Insurance is an expense item that should also be reviewed closely since the physical characteristics vary significantly as well as the perceived risk. Selecting relevant and applicable expense comparables is also a key component in developing reliable capitalisation rates. Historically, there have not been any notable operating expense sources for marina related properties. However, now that the marina industry is quickly transitioning from a 'mom and pop' type industry to a notable investment asset class, formidable sources are anticipated.

In addition to the physical similarities of marinas, location characteristics and ownership interests must also be considered in selecting applicable capitalisation rates, as coastal marinas differ from inland marinas and some marinas are on leased land.

The marina industry is quickly being recognised as a notable asset class and thoroughly understanding the operational characteristics and income and expense ratios will be the key to the meaningful valuation of marine related properties as a 'going concern'.

Slip rates should be based on length of vessel or dock, whichever is greater.

Gerard H. McDonough, MAI, FRICS is the senior managing director of the Rhode Island and Connecticut offices of Integra Realty Resources, a national real estate appraisal company with 58 offices throughout the USA. He is also president of Marinevest, based in Newport, Rhode Island. He can be contacted on email: gmcdonough@marinevest.com