

# How to value your marina

by Gerard H. McDonough, MAI

The valuation of marinas is a very complex task because no two marinas are alike. Marinas vary in land area, wet and dry storage capacity, improvements, equipment and location. As a result, the major challenges facing appraisers on a global basis are the varying physical characteristics and the type of use.

Marinas range from small, family-owned facilities to large, full service operations. The small or limited service facility typically consists of wet slips and upland indoor and outdoor boat storage with fuel services. In addition to the wet slips, upland storage and fuel services, the full service marina typically includes a boat maintenance and repair component that is either operated by the owner of the marina or leased to a third-party. The latter option is becoming increasingly more popular in today's marketplace.

Within these marina types, marinas exist with different characteristics such as Wi-Fi capabilities, ship's store, laundry and shower facilities, restaurants and so forth. Due to the unique characteristics of these marinas, professionals who are very familiar with the property type and the nuances associated with the marina business should appraise them.

## A professional approach

The first step in the valuation of a marina is to determine what interest is being appraised:

- **Fee simple:** absolute ownership.
- **Leased fee:** rights leased to others.
- **Leasehold:** land is leased. In the United States this type of interest is very common in marinas located on lakes owned by power companies or the US Army Corps of Engineers. Although the lease terms are typically 20 years, the majority are renewed. In Central America, for example, marinas are operated under a concession agreement which typically has terms of 20 to 25 years and if the governmental agency does not renew the lease, they must reimburse the lessee for the value of the business. In Australia, seabeds are leased for similar time frames. However, the lessor is not required to reimburse the lessee for the value of the business if the lease is not renewed. The capitalisation rates and discount rates that are selected in the development of the leasehold value vary depending on the length of the lease term as well as renewal probability.
- **Going concern value:** real estate is an integral part of the ongoing business. The capitalisation rates used in developing the going concern are higher than the rates that are used in the valuation of the income that is only generated from passive real estate income.

In quantifying the durability of a marina facility's income sources, the appraiser must understand the subject's position from a local,

regional and national perspective, while at the same time thoroughly addressing the existing and potential competition from other marinas.

## The site inspection

The site inspection is an important component of the marina analysis because without a thorough understanding of the physical characteristics of the marina, the appraiser can reach a misleading conclusion.

When inspecting the upland and basin areas, the appraiser should consider a significant number of items. Some of the primary ones are as follows.

### Upland

**Access:** are there bridges or other off-site features, such as narrow streets and power lines, which will ultimately restrict the transportation of boats to and from the site?

**Configuration:** is the shape of the site functionally adequate or is the utility compromised by an irregular configuration?

**Contamination:** what is the environmental status?

**Fuel tanks:** are they above or below ground, double or single wall? What is the status regarding permits?

**Travel lift well and boat ramp:** width, capacity, water depth at mean low tide in the travel lift basin.

**Easements of encroachments:** are there any adverse restrictions or rights of way running through the site?

**Zoning:** is the current use as a marina a permitted use? If not, expansion potential will be restricted and neighbours could always be an issue in the profitable operation of the facility.

**Wetlands/usable land area:** how much land is actually usable?

**Pump-out facility:** is there an adequate system on site?

**Drystack buildings:** an engineer's report on the structural integrity and capacity of the racks and building components should be reviewed. Rust dripping from older rack systems can be an issue for boats on lower levels.

**Parking:** is there adequate land area to accommodate the required parking?

### Basin area

**Prevailing wind/fetch:** what is the direction of the prevailing wind and the distance of open water or fetch? A large open area between the basin and the closest land mass could warrant the need for wave attenuation.

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**Attenuation:** is the basin area protected from extraordinary wave action or is wave attenuation required?

If so, is it financially feasible to solve any potential wave action issues? Always try to inspect the marina during inclement weather and be sure to check damage reports with the local building inspector's office, as well as the owner's insurance carrier.

**Depth:** what is the average depth at mean low tide? Owners can charge more for slips that can accommodate deeper draft boats.

**Dredging:** when was the last time that the marina was dredged and are permits in place for maintenance dredging? How difficult is it to obtain dredge permits and what is the removal cost per cubic yard? Siltation is a serious and very costly expense that must be addressed very carefully since it could have a very significant effect on capital reserves.

**Expansion possibilities:** does the dock configuration take full advantage of the basin area or is there room for expansion? If so, what is the permit status?

**Beam:** what is the typical width of slips in the basin area? Since the beam or width of boats is increasing, make certain that your overall design is not obsolete because reconfiguring the basin area could be a major expense.

**Fairway:** the typical fairway or distance between boats in the access aisle to the slips should be a minimum of 1.5 times the length of the boat.

**Dock flotation:** is the flotation environmentally acceptable or is there exposed flotation that needs to be encapsulated?

**Electrical:** are there sufficient powerheads as well as adequate power?

**Fire prevention:** is there adequate fire protection, particularly in the case of covered slips?

**Bulkhead:** what is the remaining life of the bulkhead? This can be a significant cost since the price per linear foot of a steel bulkhead can run between US\$1,000 to \$1,200 per linear foot for normal depths and up to \$2,800 for extraordinary depths.

**Permit status/violations:** are all permits in place for the operation of the facility as currently improved? Confirmation should be obtained from all regulatory agencies regarding any violations, existing permits and potential expansion.

**Seabed or submerged land:** who owns the land under the water in the basin area?

The highest and best use of the marina property is at the core of the financial analysis, and the appraiser must determine what is the most profitable, financially feasible and highest and best use. Let's look at a specific example.

A residentially zoned site can compromise the marina analysis. This issue is very prevalent in today's marketplace, particularly in areas where public access to the waterfront is disappearing quickly because waterfront properties are worth more as residential developments than as marinas.

In areas where marinas are being lost

to residential development and slip space is rapidly disappearing, the demand for ownership of both in-water slips and drystack slots must be considered when developing the most profitable and financially feasible use of a marina.

Dockominium or long term lease ownership, originally conceived in the late 1980s, is once again popular in areas where slips are in strong demand. In Florida, a significant number of slips have been converted from rental to private ownership with prices ranging from \$3,500 to \$10,000 per linear foot. In Australia, long term slip ownership is gaining in popularity, particularly along the Gold Coast in the Brisbane area, where residential developments are promoting individual slip ownership with one development offering more than 1,200 slips for sale. Individual slip ownership is also popular in the Caribbean and in Costa Rica where there are currently three large marinas under construction.

### Traditional approaches

In the valuation of real estate, appraisers traditionally use the **cost**, **sales comparison** and **income** approaches.

In the valuation of marinas, the **cost** approach is not typically developed due to a lack of land transactions that were purchased with permits in place for marina development. Also, this approach is rendered subjective due to the difficulty in accurately estimating accrued depreciation. However, the cost approach can be used in developing the contributory value of the Furniture, Fixtures & Equipment (FF&E) component, such as equipment and docks,

which in most instances are not affixed to the real estate.

The **sales comparison** approach is also rendered subjective because the physical characteristics vary so much. With this approach, the most commonly used unit of comparison is price per slip. The problem here is that slip price does not adequately address the slip's actual storage capacity. For example, a marina may have a 35ft vessel in a 42ft slip due to the marketplace.

The more reliable unit of comparison is price per linear foot of dock space capacity because it directly addresses the actual storage capacity. The slip storage capacity should always be based either on the length of the slip or the boat, whichever is greater. As an aside, it's hard to believe that some marina operators are leaving money on the dock by not charging based on the true capacity of a slip.

Another unit of comparison that can be derived from the **sales comparison** approach is an income multiplier. This is derived by dividing the purchase price by the revenue generated at the time of sale. For example, a \$2 million sales price, divided by income of \$500,000, results in an income multiplier of four (4).

The problem with this approach is consistency in determining which income the appraiser must consider. Applying an income multiplier abstracted from a marina where the income is entirely generated from wet slip and upland storage income compared to a marina where a significant portion of the income is generated from fuel sales, boat maintenance/repair and particularly boat sales, can result in

a very misleading conclusion.

In most instances, appraisers should use the **sales comparison** to test the reasonableness of the value derived via the income approach.

The **income** approach is the primary approach that is used in valuing marinas. However, this approach requires the appraiser to have an in-depth understanding of the marina business since the real estate is an integral part of the going concern. The primary issue that must be addressed is at what point does the analysis depart from real estate and into going concern? Income generated from boat slip rentals, wet and drystack and open upland boat storage are considered to be passive income sources that are real estate oriented. The boat maintenance and repair business, for example, is considered as part of the going concern and must be analysed very carefully. If the primary goal is to arrive at the value of the real estate, the best way to handle this particular aspect of the marina operation is to assign a rental rate to the space that is occupied by the boat maintenance and repair business or allocate a percentage of the gross sales as real estate oriented income.

The trend today in the industry is to lease the boat maintenance and repair business to third parties. However, in instances where the marina has a long standing and highly regarded boat maintenance and repair business, the appraiser must be able to competently analyse the contributory value of this income source, which is an integral part of the going concern. Boat sales should be treated very carefully and in most instances, the income that is considered from this source should



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be based on commercial/retail rent that is allocated to the space that is occupied by the boat sales operation.

If the purpose of the appraisal, for example, is for mortgage lending purposes and the lender is primarily interested in lending on the real estate value of the property and not the going concern, this needs to be clearly identified. Pictures (a) and (b) illustrate this concept.

Normally, when an appraiser is developing the fee simple market value of an industrial property, the appraiser would not include the contributory value of the business that is operating within the buildings.

However, if the area covered in trees seen in photo (a) was to be developed with a waterfront basin area, as can be seen in photo (b), some appraisers suddenly feel obligated to include the value of the marina boat sales and maintenance and repair businesses, even though the initial request was not to appraise the going concern value of the real estate.

In developing the projected net income that will be capitalised, the appraiser should review the income and expense statements from at least the last three years. The income sources used in the analysis, as well as the vacancy projection, should be supported with detailed information collected from similar and competing marinas. As previously noted, if the income generated from the entire boat maintenance and repair operation is considered, the appraiser must be very familiar with the specific operation, otherwise an overstated value can result.

The appraiser should analyse every expense category, particularly insurance, because this expense item has increased significantly over the past year. In fact, it's difficult to get affordable insurance in some regions or countries. Another category that appraisers must carefully address is labour-related expense, particularly in full service marinas. The projected expenses should be compared with expenses at other similar marina operations to ensure that the projected or reconstructed expenses are reliable.

A word of caution: fuel sales at marinas vary significantly, so the appraiser may want to isolate this particular category when

comparing expense ratios. If the appraiser has a significant amount of operating expense information from comparable facilities, the appraiser will usually find some consistency amongst certain expense ratios, such as fuel costs as a percentage of total sales as well as insurance costs.

Another expense item that should be carefully researched is real estate tax, particularly if the property is being sold. The appraiser should interview the Tax Assessor to find out what increases might occur upon the sale of the property.

Armed with this information, the appraiser can deduct the fixed and operating expenses from the adjusted gross income and capitalise the resulting net operating income into a market value.

Applying a 10% capitalisation rate to a net income of \$500,000 results in a value of \$5 million ( $\$500,000/10\% = \$5,000,000$ ). Capitalisation rates are derived from several sources: marina sales; investor surveys; and a mortgage equity technique that takes into consideration prevailing mortgage terms.

Although the most reliable rates are obtained from recent marina sales, the rates must be derived from marina transactions that are similar to the property that is being appraised.



Applying a capitalisation rate derived from a limited service facility to a full service facility can result in an overstated value. Also, applying a cap rate derived from a fee simple transaction action to a leasehold transaction can also result in a misleading conclusion. The primary concern in all these valuations is consistency.

Regarding the valuation of marinas where the slips are being sold on a long term lease basis, the value of the marina is derived via a discounted cash flow analysis, which is the present value of the net annual income that is realised over a defined absorption period as opposed to the capitalisation of the net operating income that is generated from slip rentals.

Finally, unlike retail, office and self-storage real estate projects, which are susceptible to over-development, the difficulty in obtaining permits for marina development enhances the confidence and reliability in the final market value conclusion. With public access to the water slipping away, the demand for professionally managed marinas is expected to remain strong and if you intend to have your marina appraised make certain that your appraiser is very familiar with this unique property type.

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*Real estate value or going concern? If the marina basin is covered in trees, as in Image 1 (above), the valuation is determined by property value alone but if, as in Image 2 (below), it is developed as a marina, the going concern value of all operations may be taken into account.*