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What marinas should know about how appraisers value their operations

BY GERARD H. MCDONOUGH, MAI

The valuation of marinas across the United States 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, one of the major challenges facing appraisers involved in the valuation of marinas is taking into account their varying physical characteristics.

There are various types of marinas, ranging from the 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, which 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 which interest is being appraised:

- **Fee Simple**—Absolute ownership
- **Leased Fee**—Rights leased to others
- **Leasehold**—Land is leased. This type of interest is very common in marinas located on lakes owned by power companies or the U.S. Army

Corps of Engineers

• **Going Concern Value**—Real estate is an integral part of the ongoing business.

In quantifying 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, and some of the primary ones are listed in the box below.

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 maximally profitable, financially feasible, and highest and best use. And this is not easy, particularly in Florida.

A residentially zoned site can com-

Primary items to consider with upland and basin areas

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, permits?

Travel Lift Well and Boat Ramp: Width, capacity, water depth at mean low tide in the travel lift basin area.

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 neigh-



bors could always be an issue in the profitable operation of the facility.

Wetlands/Useable Land Area:

How much land is actually usable?

Pump-Out Facility: Is there an adequate system on site?

Dry Stack 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 area and the closest land mass could warrant the need for wave attenuation.

promise the marina analysis. This issue is very prevalent in today's marketplace, particularly in Florida, where public access to the waterfront is disappearing quickly because waterfront properties are worth more as residential developments than as marinas. In areas of the country where marinas are being lost to residential development and slip space is rapidly disappearing, the demand for ownership of both in-water slips, as well as slips in dry stack buildings, must be considered when developing the most maximally profitable and financially feasible use of a marina.

Although not all marinas should be valued based on their dockominium potential, there are some areas of the country, where this option must be considered. Today, for example, some wet and dry slips in Florida are trading at unprecedented prices—some even in excess of \$10,000 per linear foot.

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

Some wet and dry slips in Florida are trading at unprecedented prices—some even in excess of \$10,000 per linear foot.

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, and equipment 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 is that slip price does not adequately address the slip's actual storage capacity. For example, a marina may have a 22-ft. vessel in a 30-ft. 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.

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 mari-

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 widths of boats are 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 way to the slips should be a minimum of 1.5 times the length of the boat. [Query: access aisle-way?]

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 \$1,000 and \$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?

nas. 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 cross-over into going concern? Income generated from boat-slip rentals, wet and dry stack, 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 analyzed 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. Today, the trend 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 analyze 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 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 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 stated.

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

However, if the area was to be developed with a waterfront basin area—as noted in the following photograph—some appraisers suddenly feel obligated to include the value of the marine boat sales and maintenance and repair businesses, even though the initial

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request was not to appraise the going concern value of the real estate.

In developing the projected net income that will be capitalized, the appraiser should review the income and expense statements from at least the last three years. The income sources used in



In this property, some appraisers include the value of the marine boat sales and the service departments in their real estate appraisals.

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 analyze every expense category, particularly insurance, because this expense item has increased significantly over the past year. In some parts of the country, it's difficult to get affordable insurance. Labor-related expenses are another category that appraisers must carefully

address, particularly in full-service marinas. The projected expenses should be compared with expenses at other similar marina operations to insure 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 taxes, 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 capitalize the resulting net operating income into a market value.

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

eration 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 cap-

italization 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 mislead-

ing conclusion. The primary concern in all these valuations is consistency.

Finally, unlike retail, office, and self-storage real-estate projects, which are susceptible to overdevelopment, 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. If you intend to have your marina appraised, make certain that your appraiser is very familiar with this unique property type. ⚓

DID YOU KNOW?

Monarch Coin & Security celebrates 104th anniversary as family-run company

Monarch Coin & Security Co., Covington, Ky., recently celebrated its 104th anniversary as a family-owned and operated company.

Founded in 1903 by Louis Hall and Walter Boer, the company was involved in the production of many different parts, from marine engines to specialty valves, but was involved in the production of coin mechanisms for various applications right from the beginning.

In the early 1940s, Mitchell Hall

bought the company from his father and his father's partner, Lindel Myers. For the next 35 years, the company acquired various patents for coin mechanisms and other products.


Today, the fourth generation of Halls is running the company. Mitchell Hall passed away in 2001, but his daughter, Stephanie, manages the day-to-day operations of the company, while her daughter, Danielle, and son, Elias, are learning the operations of the company.

The company recently changed its name from Monarch Tool and Manufacturing to its current one of Monarch Coin & Security to more accurately reflect its current activities.


Gerard H. McDonough, MAI, is the managing director of the Providence, R.I. and Hartford, Conn. offices of Integra Realty Resources, a national real-estate appraisal firm with 56 offices nationwide. He can be reached by phone at 401/273-7710 ext 15; by fax at 401/273-7410; or via e-mail: gmcdonough@irr.com; or visit the web site: www.irr.com/providence.

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