

FEATURE
perfect niche

ON THE WATER

Appraising marina properties is a challenging niche with as many variables as there are bodies of water
By **DEBORAH R. HUSO**





If you're operating your appraisal business in a waterfront market and thinking of getting into marina valuation, look before taking the plunge. Marina valuation is a challenging niche market made all the more so by the variation in property types.

"You need to do these on a regular basis to have an understanding of the market," says Gerard McDonough, MAI, managing director of the Rhode Island and Connecticut offices of Integra Realty Resources

and also president of MarineVest, a marina appraising and consulting firm. "A marina in Boston is completely different from a marina in San Francisco," says McDonough, who conducts marina

appraisals all over the country and notes that about 95 percent of his business is in marinas. He says that it's rare when he comes across a 'cheese and cracker marina,' his term for a basic marina that simply rents out slips.

FRONT

Jim Greenleaf, MAI, principal at McKee and Schalka in Seattle, agrees. “A marina focused on summer weekend users is quite different from one focused on hard-core fishermen,” he says. “Similarly, the mega-yacht marina [deep draft slips 80 feet or longer, crew services, accommodations, restocking services and float plane access] is different from one serving the average boater, which generally consists of a mix of 20- to 60-foot slips.”

Determining the Approach

These differences are a major reason why appraisers find marina valuations to be so



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challenging — yet so exciting — to dive into.

McDonough says such variations make it difficult to utilize the sales comparison approach, and instead he recommends the income approach. But even that method sometimes can be tricky. “Some appraisers use price per slip,” McDonough says, “but what if you have a 100-slip marina where the average size is 30 feet compared with a 100-slip marina where the

average size is 48 feet?” In these situations, he advises the use of price-per-linear-foot.

And he notes that the income approach shouldn’t be used alone — it’s critical to also consider the cost approach. McDonough says that doing so entails an important look at short- and long-term maintenance issues for the property.

QUICK FACTS ON MARINAS

- There are more than 12,000 marinas in the U.S.; 60 percent of these are located on saltwater.
- The Association of Marina Industries, the international trade association for marinas, currently has more than 800 marina members with more than 164,000 combined slips.
- The median age of marinas in the U.S. is 40 years.
- 75 percent of marinas are 25 years or older.
- Most marinas are owned by individuals as opposed to corporations.
- Pleasure boat dockage, slip rental, launch fees and storage fees account for most marina income.



“The marina owners and managers who were paying attention before the market decline have properties in good condition,” he says, but a lot of marinas in the current market have occupancy and maintenance issues. McDonough recommends having an engineer evaluate marina properties to determine deferred or potential maintenance. “Appraisers should request a property condition report to know what is going on below the water,” he advises. “What’s going on with bulkheads and piers?”

McDonough says a stormy day is the best time to inspect a marina because it’s possible to see how docks are affected by wave action and wind. “Condition is a very significant factor,” he says. “The facility needs to be well-maintained and have a functionally adequate design.” That means appraisers should look for fairways wide enough to easily guide boats into the slips.

Arthur Schwartz, MAI, senior managing director with ADGST Real Estate Appraisal, Research & Counseling in New Orleans, says it’s also important to determine if the marina site is being properly dredged if it’s located in an area where silt build-up occurs. And he notes that it’s important to confirm that all marina maintenance and operations are in compliance with federal, state and local environmental regulations.

Schwartz says that it’s the property’s condition that often will determine his valuation approach. While he does consider all

WHAT FLOATS YOUR BOAT

Approaches for developing the value of a marina

Most appraisers use a combination of sales comparables and income and cost approaches to help them develop an opinion of value for marina properties. Jim Greenleaf, MAI, of McKee & Schalka in Seattle, offers the following guidelines for valuing marinas:

- **For land value,** consider the marina’s location and how much demand it has and its proximity to users and the destination area (how long does it take for boaters to reach recreational waters?). Then consider accessibility issues like tidal restrictions, seasonal limitations, locks, bridges and access to services. Also consider whether the property is owned or leased.
- **For the cost approach,** look at the number of slips, slip length and overall lineal feet of dock. Then consider the condition of bulkheads, breakwaters, haul-out access and the condition of service buildings and storage facilities.
- **For the income approach,** consider all sources of revenue like slip rentals, haul-out charges, storage fees, building leases to yacht brokers, fuel sales and storage sales.

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WATER FEATURES

Just like appraisals on dry land, location plays a major role in developing an opinion of value for a marina property. But the criteria for an appraisal can be a little different from those of landlocked commercial enterprises. Here are a few of the questions that must be considered when valuing marina property:

COMPETITION

How many marinas operate on the same body of water?

ACCESS

How is access to the water managed?

LAND

Who owns the land on which the marina operates?

BRIDGES

How many bridges separate the marina from open water?

SPACE

Is there room for the marina to expand?

options, the weight he gives to each approach varies. “A successful property might mean greater weight is given to an income approach while a failed marina will entail a cost approach.”

Access and Amenities

While the conditions of physical real estate are critical, John Dalkowski III, MAI, CEO of Phoenix Real Estate Counselors of New York, Florida and South Carolina, says that it’s equally critical to determine “how much of the value is the real estate and how much is the business.” And as with other property valuations, appraisers should consider the value of future benefits, such as establishing a restaurant, a fueling station, dry rack storage or a repair facility.

McDonough agrees and says that a marina with a vibrant boat repair operation is a strong amenity, as is fuel service, particularly if the marina is in an isolated location.

As for location, Dalkowski says that it’s a major consideration (as it is with any real estate), but when it comes to

marinas, some important factors often can be overlooked: “How far is it to the ocean? And how many bridges are there on the way?” he asks, noting that distance can detract from a property’s value if, for example, it takes boat owners an hour to get from the marina to recreational waters.

Other considerations should include whether or not there’s access to the upland from the water. Is there a boat ramp or a lift? Is it possible to haul boats at both low and high tides? Does the marina have a captive audience — is it the only operation on a particular body of water?

And Dalkowski says legal issues affecting the marina need to be taken into account. For example, who owns the land on which the marina operates? In some cases, marina owners own the business but lease the land from a government entity.

“If the marina doesn’t own the land or water bottom on which it operates, they have to lease it and that’s an expense,” says Schwertz. “If they own it, they have better control over the property.”

An additional ownership concern is riparian rights, meaning the water and access rights afforded the owners of land bordering the waterways.

Schwartz notes that in many situations land now matters less than it once did because fewer owners are developing properties given the current market. Those interested in doing so discover it's not easy because of environmental issues and regulations.

However, land still matters when it comes to expansion — a marina on two acres doesn't have space for much future development. "You need a balance between high-and-dry land and docking space, but as a general rule, the water spaces are the most valuable," says Schwartz.

Market Outlook

As for how the current marina market looks, McDonough says investors are purchasing marinas based on "in-place" income. Very few buyers are looking to grow operations or further develop properties in the current market.

"New development is limited," he says. "We're mostly seeing appraisal requests for refinancing and acquisitions. Upland value is not being recognized right now for further development."

Dalkowski says the healthiest marina market is for



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properties that can handle large boats. "They're in great demand and there aren't a lot of them around," he notes.

And Greenleaf says that marinas are "not a demand-driven market like the market you think of for homes or even office space." He notes that supply also is a problem. "The most desirable locations are already developed, and restriction on shoreline development is significantly restricting new supply," he says. 📈

Deborah R. Huso is a Blue Grass, Va.-based freelance writer and a regular contributor to the Appraisal Institute's e-newsletters Appraiser News Online and Residential Update.



For more information on marina valuations, read "The Valuation of Marinas" by John Simpson, MAI, available from the Appraisal Institute at www.appraisalinstitute.org/marinas.

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