

Over the past five years, there has been a lot of talk about marina consolidation. Who will be the first major player? What will they bring to the table that is new? Will they be able to create a brand and even a franchise? Having provided appraisals and consulting services for various major marina investment groups and several "consolidators" looking to enter the field, we have some of the answers.

## Marina consolidation defined

Marina consolidation is a concept whereby a group purchases a large number of marinas in order to standardize operations, create a brand image and create a uniform experience for customers.

More services will be offered and those services will have a consistent level of customer service. The hope is that after the concept has been exposed to the market long enough, boaters will tend to frequent the marinas that belong to the portfolio, creating a favorable demand to supply situation. The final result is more diversification of income, the ability to raise rates greater than market due to excess demand and lower operating costs. It is hoped that the interplay of all three will increase the net operating income — substantially.

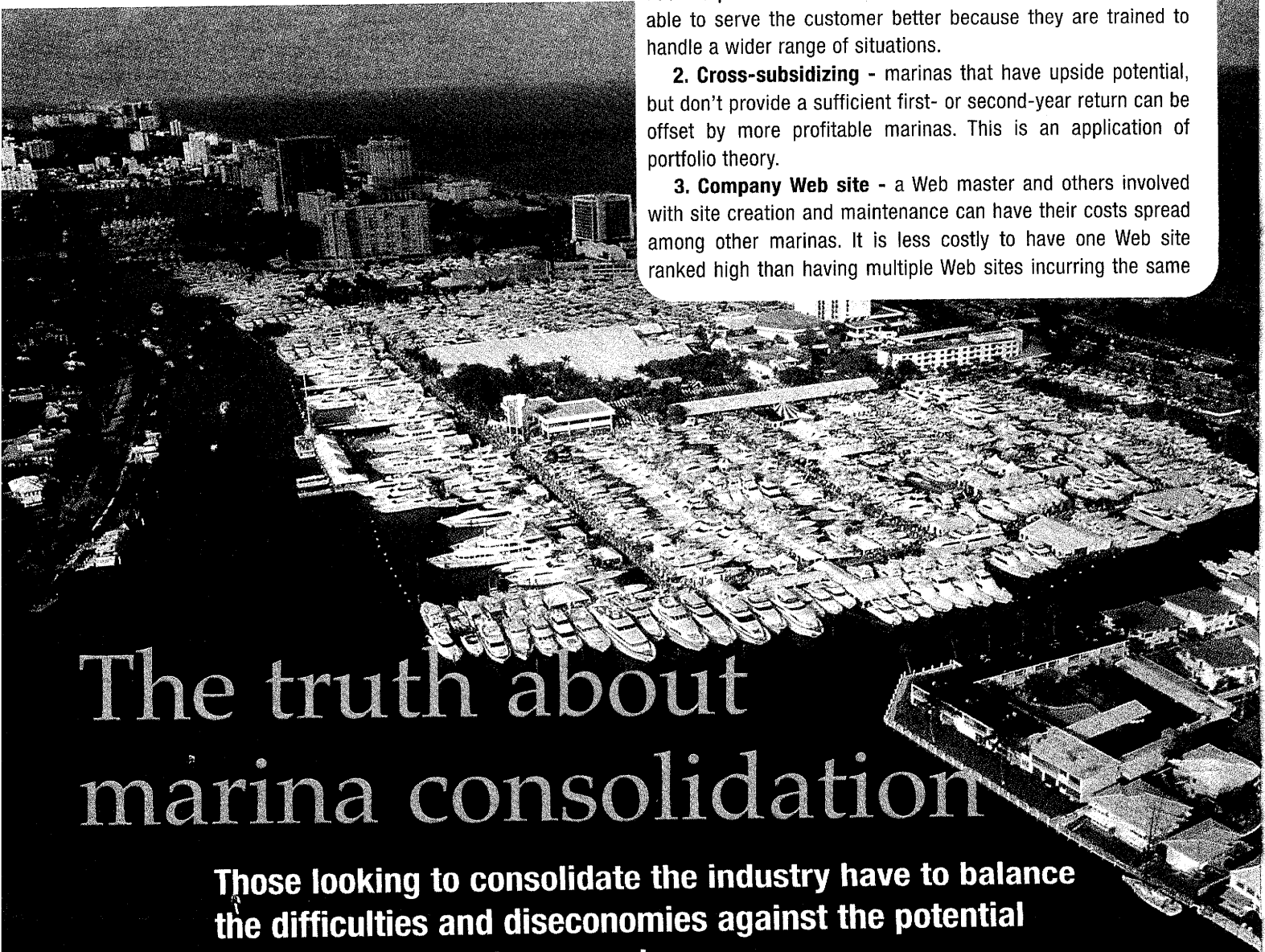
## The wish list

What are the areas that consolidators have viewed as having the potential for economies of scale?

**1. Training** - standardizing training methods for personnel has the potential for a better trained workforce. They often are able to serve the customer better because they are trained to handle a wider range of situations.

**2. Cross-subsidizing** - marinas that have upside potential, but don't provide a sufficient first- or second-year return can be offset by more profitable marinas. This is an application of portfolio theory.

**3. Company Web site** - a Web master and others involved with site creation and maintenance can have their costs spread among other marinas. It is less costly to have one Web site ranked high than having multiple Web sites incurring the same



# The truth about marina consolidation

**Those looking to consolidate the industry have to balance the difficulties and diseconomies against the potential for cost saving and revenue increases**

By John Simpson and Eileen Simpson

ranking expenses, all jockeying with each other for search engine position.

**4. Floating personnel positions** - marina management and personnel can be assigned to other facilities that are experiencing too much demand or having an experience gap. In some cases, facility-specific management personnel can be replaced by "regional" managers.

**5. Lines of business** - if marinas can have sizeable retail sales components, consolidators hope to bring more products to a facility. A common example is MarineMax, which frequently brings new brands to a boat sales facility that the owner could not get otherwise.

**6. Advertising** - larger advertising contracts result in lower costs per advertisement.

**7. Professional fees** - legal and accounting fees per marina can be reduced when the cost is spread among more marinas.

**8. Retail purchase costs** - more facilities can offer the potential for lower gasoline purchase expenses, better retail product costs and lower boat part inventory costs.

**9. Boat repair personal economies** - by floating personnel between various boat repair facilities instead of having full-time staff at each with duplicate skills, a lower labor cost can result. When the boat repair business is slow, fewer personnel results in lower unproductive costs.

## The reality

■ For sale properties

1. Simply put, there are just not enough marinas for sale in most major areas to achieve the economies of scale from a common labor pool, sharing of services or eliminating duplicate management positions. Key personnel strongly resist relocating to marinas that are too far away, so finding marinas in the same markets is imperative.

2. The sale prices usually are too high in relation to the required return of investment. The number one concern of investors looking to use funds from Wall Street or international sources is the

return on investment. When the price is too high and the return less than the return that could be generated from an easy, management-less investment, the deals die on the vine.

3. Many marinas that are available for sale have significant depreciation. Sometimes the owner has not reinvested sufficient capital reserves to keep the docks, bulkheads and other marina elements in the condition they should be. The upfront cost to bring them back to market standards combined with the sale price usually result in such a poor first-year investment that it cannot be justified. One test we use is debt to value. If the amount of the debt is greater than the market value of the marina in this condition, the marina will not sell.

■ New marina development

1. Historically, for other "brand" or franchise concepts such as hotels, motels or fastfood restaurants, it was relatively easy to create the critical mass necessary to start generating lower operating costs and higher revenues. These companies

Key personnel strongly resist relocating to marinas that are too far away.

just built more in their target areas. For instance, some parts of the country have a McDonald's restaurant at almost every exit along a major highway. In many parts of the United States, that is just not possible.

Ironically, the most heavily developed portions of the country, which have the highest levels of marina demand and purchasing power, have such stringent development requirements and so little marina-developable land that constructing a marina is not financially feasible or even possible. Development along lakes is typically much easier, but the supply and demand in many such areas is such that development is not warranted.

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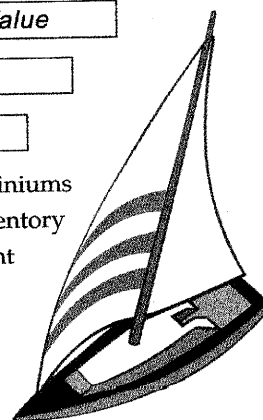
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2. Most newly developed marinas were created not just to provide boat dockage. The importance of other uses often is a deciding element in developing a new facility and the most constraining factor is land. To include a hotel, retail/office complex, high-rise luxury condominiums or other components require a significant amount of land for the building and especially parking. When zoning is in place, one or more of these uses may not be allowable and it is common to get a material amount of objection from neighboring commercial uses to new construction.

3. Financing for marinas is difficult enough, but many lenders simply do not want to make marina development loans. Many of the ones that do will do so at greater rates than for nonspecial purpose properties. This is to be expected considering that major corporations, Real Estate Investment Trusts (REITs) and other large businesses have far more capital and credit than a typical marina owner, so their construction financing rates are less in comparison.

### The numbers

The economies that marina participants expect often are not present or cannot be created.

**1. Centralized ordering and booking** - each marina seems to run differently in many key ways and it is very difficult to find software that can handle management of so many diverse marinas. Some larger marina groups have hired programmers and developed custom software, but the cost and often the end product ends up a disappointment. Many times new computers must be purchased to standardize across marinas and this is another hidden cost. Integrating software between local computers and the Internet is another potential difficulty.

**2. Payroll** - having a centralized management division that controls each marina adds an extra layer of expense. If that layer has too many personnel assigned to it, the result can be extra financial pressure on each marina in the portfolio. Another problem is that a management layer consists primarily of fixed costs and it takes a large number of marinas to reduce the cost per marina to the level where the additional management layer is cost-effective.

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**3. Revenue growth** - just collecting a group of marinas isn't enough to raise revenue. A new concept that the boating public perceives as distinctive is necessary. Unfortunately, this has proven to be a major hurdle because boaters are not willing to

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spend more for something that they perceive as not providing significant benefits.

**4. Insurance** - it's no secret that virtually all insurance costs have increased significantly due to an inordinate number of claims last year. It might seem that obtaining a blanket insurance policy for all facilities would be less expensive than individual policies, but in many cases that is not true. Sometimes one company cannot offer the same rates as the lowest priced insurance company in each market.

**5. Need for a corporate Web site** - whereas many marinas have only a rudimentary Web site, if one at all, many marina consolidators apportion the higher cost of a large corporate Web site to each facility. This is a much higher cost than what individual marinas are used to paying, although the cost per marina decreases as more are added to the portfolio.

**6. Fixed costs vs. variable costs** - on a percentage basis, the fixed costs necessary to run a marina are so substantial that there is little that can be done to reduce them. The three largest areas that suffer from this are real estate taxes, utilities and personnel.

As one of the largest expenses for most marinas, owning more marinas does not result in lower real estate taxes. Disparate marina locations offer no economies for utility expenses and there is no substitute for the personnel required to conduct daily business operations at a marina (some economy on management is possible, but in relation to the personnel required to run the daily operations, the percentage of wages saved is inconsequential).

### The revenue side

Consolidators do not just concentrate on potential expense economies. Revenue is equally important. Three major problems hurt the revenue side of the equation.

**1. Physical differences among marinas** - when a concept involves having more than just a marina, physical

differences result in fewer properties that meet the requirements of the consolidator. For example, if the potential market is for yachts or megayachts, shallow marinas simply will not do.

**2. Lack of market research** - to create a brand that is distinguished in the mind of the consumer, it is necessary to find out the wants and demands of that boater. Only market research can do this. Focus groups, surveys and telephone interviews are necessary to determine if a concept is viable. Only by distinguishing

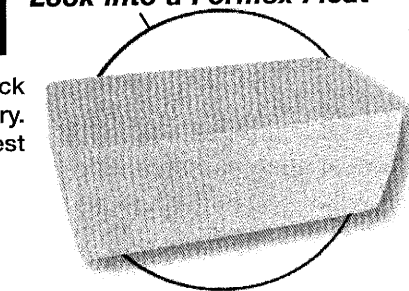
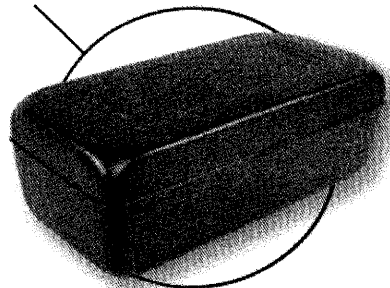
Many marina owners are unwilling to invest in an untried or unproven concept.

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the concept in the mind of the consumer can higher revenue growth rates than market is achieved. Many times this step is given only cursory attention.

**3. Adding value** - it is usually necessary to add perceived value to a concept for it to be worth more. Many marina owners are unwilling to invest in an untried or unproven concept. Something must be added to the mix. For instance, one component of MarineMax's acquisition strategy involves forming long-term relationships with marina owners in return for additional boat lines that they could not get otherwise. This creates a win-win situation. One question a marina consolidator can ask is what can the marina owner get that they couldn't get otherwise? It is necessary to "sell the sizzle." Some operations have an inability to create a universal theme perceived as superior to offerings now in the market.

### The opportunities

So, with everything that has been said, what areas offer opportunities for consolidation?

- Consolidation only works if the boater moves extensive distances and from market to market. Conducting a brief survey to determine boater profiles in a market will tell if enough boaters travel from outside the market or whether it is relatively "captive."
- Marinas located along the Intracoastal Waterway are good candidates for consolidation because a high percentage of

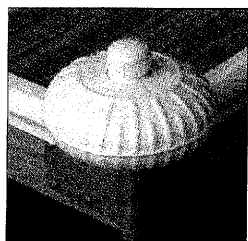
boats travel among the different markets located along it.

- Ocean marinas are preferable because lake marinas are usually captive markets and the overland distance between lakes often is prohibitive.

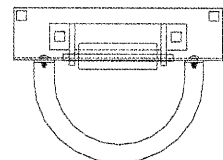
Those looking to consolidate the industry have to balance the difficulties and diseconomies against the potential for cost saving and revenue increases. Marina consolidation can happen, but it requires a much longer investment viewpoint than other "franchise" concepts.

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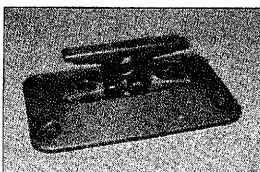
**Eileen Simpson**, president of *Commercialappraisal.com* where she handles business development and complex property appraisals, has more than 10 years of brokerage experience and eight years of appraisal experience. She has an extensive tax appeal background and litigation background. She can be reached at (877) 877-1616 or [eileen@commercialappraisal.com](mailto:eileen@commercialappraisal.com).



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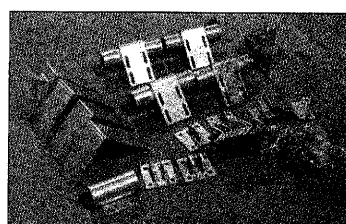
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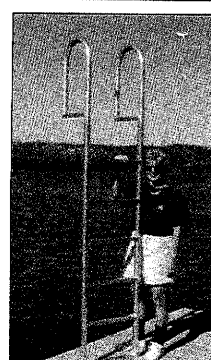
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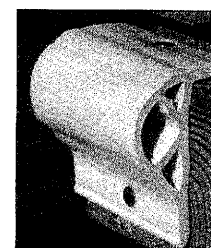
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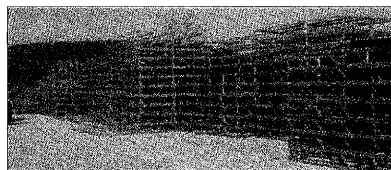
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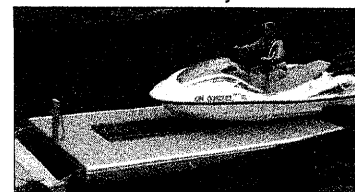
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