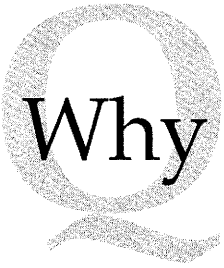


Ask The Appraiser



Why are there so few marina sales?

By John Simpson and Eileen Simpson

"AskTheAppraiser" is a new column designed to answer your common questions regarding marina valuation and appraisal reports. To ask a marina appraisal question, please send your question to the column's authors at john@commercialappraisal.com.

We frequently have dialogs with marina owners about sales, and we're often asked this question. There are many possible explanations, and four reasons stand out in particular.

Financing is a critical aspect of sale transactions. Unfortunately, marinas are not viewed by many lenders in a positive light. The last recession caused an excessive number of marinas to fail, and lenders had to accept sale prices for failed assets that were substantially below loan amounts. We tracked sales activity by the Federal Deposit Insurance Corp. (FDIC), and the real estate was being sold at auction for about 65 percent of the appraised value; even then the appraised value reflected the decline in market conditions.

Many lenders remember what happened to marina loans during the past recession and do not want to be back

in that position. As a result, they will not make marina loans. Even large institutional investors have stayed away from investment-grade marinas because they view marinas as recreational properties and therefore too risky. Most of the large lenders that will finance a marina need to see a solid track record, and they are in a position to pick and choose only the best marinas for financing.

The second reason for so few sales is the difference between what a marina owner wants to sell it for and what the market will bear. The wrong time to sell a marina is after it has depreciated to a level that millions of dollars will need to be spent on replacing docks, piers, fingers and other aspects that are subject to weathering. In many cases, the amount of the underlying mortgage is greater than what a typical purchaser is willing to pay, so the property must be listed above market to sell it.

A third major problem with sale prices is that they sometimes do not reflect financial realities. Many marinas have seen increased vacancies as a result of the recession, although this is by no means universal. With lower income, the ratio of expenses to income increases. Insurance expense for all commercial real estate has been increasing tremendously since before Sept. 11. The result is a lower net operating income and therefore a purchase will offer less to an owner who has not considered these aspects in the listing price.

A test a marina owner can use to determine the reasonableness of the sale price is to determine the return on investment for the purchaser given the listing price and typical financing terms. Is the resulting return competitive with other types of investments such as stocks and bonds? Is the return a negative number?

A fourth problem with selling marinas is the size of the pool of potential purchasers.

Marinas are special-purpose properties in many ways, and they require a skilled management team that often is difficult to assemble. Most marinas will only appeal to local marina owners because of the necessity of hands-on management. Contrast this to real estate investment trusts or other large investors that can own and manage hundreds of similar property types all over the country because no on-site, hands-on management is required. Marina purchasers out of the area rarely are interested because of the logistics of running separate, locationally diverse marinas that require daily hands-on management. A smaller pool of investors results in fewer sales.



John Simpson is CEO of Commercialappraisal.com, a nationwide appraisal and environmental site assessment firm headquartered in Arnold, MD, that specializes in marina valuations. He holds the MAI designation from the Appraisal Institute and the CCIM designation from the CCIM Institute, a subsidiary of the National Association of Realtors. He has authored three books offered by the Appraisal Institute as well as 11 Appraisal Journal articles on a variety of topics. He can be reached at (410) 431-5310 x 302 or john@commercialappraisal.com.

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