

MARINA MARKET NEWS

By MDA Staff



Marina Valuation Explained

The term cap rate or capitalization rate is tossed around anytime the topic of marina sales comes up. In short, the cap rate is the rate of return that a buyer can expect when purchasing a marina and it's what is used in the income capitalization approach to determine a marina's value. By the math, a cap rate is found by dividing the Net Operating Income (NOI) or Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) by the purchase price.

The goal for a seller is to have

that rate as low as possible to achieve the highest sale. There are several factors to consider and actions to take in reaching that goal.

The intent of getting a marina valuation is to have an expert look over the operations and physical condition of a facility and determine what changes can be made to ensure the seller gets the best price on a sale. George Ash, national director of Simply Marinas, said to do this efficiently requires planning ahead.

"If you can think two or three years ahead and reach out for advice, I recommend it. We will look at your marina through a site assessment and a review of the financials to identify

what you can do to make it more sellable. We'll tell you how to best position your marina for the highest possible sale value," Ash said.

Let P&L Reports be the Guide

A marina's income is shown through its P&L statements, which are used as a blueprint for what the business is doing, and for a marina consultant to identify what can and needs to be fixed both in terms of the facility and the bookkeeping.

Sellers should make a list of major capital improvements that occurred over the last three to five years. The expenses from these improvements, for instance adding a fuel dock or rehabilitating the docks, can often be justified as an add-back to the marina's Net Operating Income (NOI). Similarly, non-recurring maintenance items, like dredging, can be prorated or annualized.

In some cases, there is little distinction between business and personal expenses. Without clearly showing income and expenses, P&L statements will not shine a true light on the business, often leaving it to look less profitable than it really is. It is good practice to keep a tab of owner benefits by showing the appropriate supporting invoices and documents.

Put all income and expenses on the books, keeping it tight and transparent.

"We advise sellers on how a buyer and their lender are going to look at the P&L and tax statements and how to best package and prepare that information so it's more sellable. We will help identify potential add-backs such as owner benefits and non-recurring expenses that can be justified to adjust the EBITDA," Ash said.

Another caution that Ash highlighted is that income statements need to reflect full payroll expenses. If the owners are also the managers involved in the day-to-day business





operations, yet don't receive a paycheck through payroll, the company's payroll expenses will appear low on the P&L report. Savvy buyers will inevitably reduce the marina's net income by what the managing owners should have been paid. On the reverse side, if owners pay themselves too much, the marina will look less profitable. Payroll expenses reported on the P&L reports should match the actual labor hours that it takes to run the marina. Recording all labor costs is also a reminder to buyers of how many people they may need to hire. Ash said many buyers keep the existing staff in place, especially in today's labor shortage, but if the owners were the managers there will be critical roles for a buyer to fill.

The Value of Full Slips

Because marinas are not simply storage businesses, but instead offer a host of other profit centers, a buyer will want

to explore and assign value to each profit center on its own. Boat storage income, both slip and landside, as well as established commercial tenant lease income, will garner lower cap rates (higher values), in general. These

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income sources are also attractive because they have a lower expense ratio, are more stable, and are less labor-intensive than service or boat sales. "Boat owners need to keep their boats somewhere even if they can no longer afford the gas to use it or costs to

repair it. The last thing to suffer during downtimes is storage," said Ash.

A final consideration for valuation is the marina's occupancy trend. Owners should provide occupancy rates and waitlist information over at least the past three years, as well as offer expectations for the coming years based on industry and economic trends. Buyers will want to see rent rolls and lease rate history so they can better estimate future success and compare the marina with its nearby competitors.

The paper trail of valuing a marina is a critical component to achieving a fair sales price, but location, the condition of infrastructure, the potential for expansion, and a top-notch staff in place, will all be factors that a buyer considers before making an offer. The location can't be changed, but with enough planning time, those wishing to sell can make changes to assure they walk away happy. ↓