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Market Update

2018 MARINA INVESTMENT REPORT



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RECENTLY SOLD



Sailing Emporium, Rock Hall, MD

RECENTLY SOLD



Surfside Marina, Surfside Beach, TX

Marcus & Millichap

State of the Marina Investment Market

By Steven Ekovich ◊ Steven.Ekovich@MarcusMillichap.com

Occupancy ⇧ / Median Price & Average Price ⇧ / Number of Sales ⇧ / Marina Development ⇧ / Taxes ⇩ / Stock Market ⇧ / Interest Rates ⇧

2017 was another good year for marina owners and investors, as both external and internal factors conspired to boost the industry's occupancy and profitability. What does this mean to you as a marina owner/investor?

Occupancy, Development and New Boat Sales

Overall occupancy remained strong throughout the industry in 2017 as boat sales grew by 6%. Consumers had more disposable income which helped spur both new and used boat sales. In addition, the number of marinas nationwide remained relatively unchanged. New marinas are very hard to build due to permitting, zoning, lack of available un-tide restricted sites, and strong opposition from environmentalists. These barriers to entry create an attractive demand vs. supply relationship for investors which should not only keep occupancy strong, but allow marina owners to increase slip and rack rental rates. Current marinas are upgrading their facilities after years of deferred cap-ex and for two major reasons: 1.) consolidation has taken place over the last few years as major marina owners continue to acquire marinas that fit their models and have the capital to upgrade the facilities and 2.) private client owned marinas have better EBITDA and can now obtain relatively inexpensive loans.

Major marina owners with great locations are continuing to convert their marinas, where appropriate, into destination marinas by upgrading docks, adding restaurants, boutique hotels, rental boats, and other amenities/activities that today's boaters want. This "destination" trend focuses on creating a unique experience centered on service and hospitality, where boaters from around the world can visit for days, or weeks, at a time and always have something to do – whether it's at the marina or nearby. Redevelopments like at Bahia Mar Marina or Las Olas Marina are perfect examples of destination marinas that will not only create a superior public space, but that can accommodate the ever-increasing number and size of superyachts. (Cont. on pg. 5)

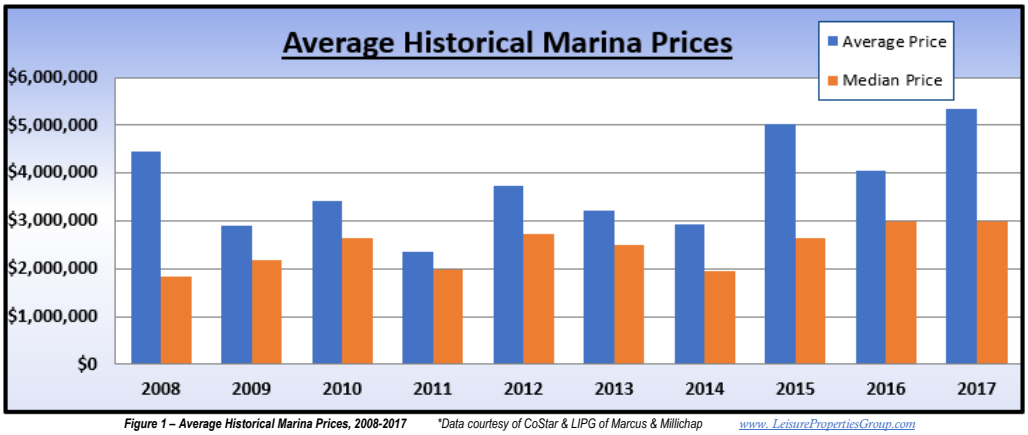


Figure 1 – Average Historical Marina Prices, 2008-2017 *Data courtesy of CoStar & LIPG of Marcus & Millichap

Investor Sentiment: 2017 Year In Review

By Chris Karamitsos ◊ Christopher.Karamitsos@MarcusMillichap.com &
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With the recent consolidation by a handful of large owner-operators and more private clients building their portfolios, one doesn't have to look much farther than to the bull market we are in, the excellent industry growth, and current market for core assets to understand why so many investors are shifting towards marinas. In the 9th year of what is the second-longest bull market in U.S. history, core assets have gotten more expensive, cap rates are compressed, and for many, the yields don't outweigh risk. With marinas, however, investors can put their money in a dependable asset class with multiple revenue streams and higher yields. The high barriers to entry are also very appealing, which not only forces investors to rely on existing marinas for acquisitions, since there is no real material new supply in the pipeline but motivates both current owners and prospective investors to try and expand and upgrade existing facilities. For owners facing excessive cap-ex and an unwillingness to go through with needed upgrades to stay competitive, a disposition is one option that may be more fruitful than expected, since investors are currently looking for value-add and redevelopment opportunities.



For investors wary about the cyclical nature of marinas, the effects of a downturn are primarily felt in the boat sales sector. That's because with the economy starts to contract, disposable income isn't going to be directed towards purchasing a new or used boat as frequently as in an expansion. What we actually see is a decrease in the number of new boats being sold and new boaters getting out on the water. However, marina performance does not necessarily decline in response to a decline in boat sales, since boat owners will still need a place to keep their vessel. Current boat owners will tend to use their boats less frequently (i.e. lower fuel sales) but they still enjoy the atmosphere a marina provides and the camaraderie that comes with being a slip holder. For marina investors, we believe there are several unique characteristics of marinas that will help them endure the next downturn: strong fundamentals of the industry, a positive demand over supply imbalance in slip and rack space as well as institutional involvement in the asset class.

Some of the owners we speak with have plans to pass their marinas on to their children, as it has been a family operation for generations (and a successful one at that!). On the other hand, we are seeing situations where the kids do not want to get into the marine industry, let alone run a marina, so those owners opt to sell. Given the current state of the economy, we believe it is a critical time for owners to look at their current operation and think about their hold period moving forward – analyze impending cap-ex, is there a loan coming due, is now the time to 1031 exchange into a larger marina or less management intensive commercial real estate (single tenant credit NNN assets) etc.

Financing has become more available as well, which is important for the average investor who typically leverages their acquisition. Almost equally important to providing the necessary capital to get a deal done, financing also allows an owner to make the necessary renovations that will not only grow the marina financially, but that will continue to build the customer base and provide a higher level of service and experience. Although traditional financing is tougher to obtain, lenders value more consistent and reliable income streams which comes down to the bread and butter of the typical marina – boat storage. Ancillary revenue streams are beneficial to any operation, as long as the expense margins are within line, but those revenue streams aren't as easy to obtain financing for when isolated from storage operations because they tend to decline in a downturn (especially in tertiary markets). As the economy continues on this bull run, we can expect debt markets to become a little more constrained, as interest rates increase (with at least three more hikes expected this year), which will ultimately push prices down and cap rates up.



The factors sited heretofore all play a critical role into the number of marinas for sale as well as how they are priced. For a successful acquisition and disposition to take place, buyers and sellers have to have a "meeting of the minds" or mutual agreement on an offering price and terms. At the end of the day, investors can find favorable yields, great cash flows, and value-add opportunities in marinas when other core assets are simply too expensive opportunities. ◊

Consolidation In The Marina Airspace

By Brett Murphy ◊ Brett. Murphy@MarcusMillichap.com

The marina industry has shifted dramatically since the Great Recession - the result of more experienced operators that have an astute understanding of the product type, as well as proven revenue streams that have come into focus for these investment opportunities. As such, there have been several big moves in the industry that are consequent to this increased attention to the industry, such as new players entering the market, various mergers and acquisitions, heavy capital influxes to specific regions of the U.S., and numerous redevelopments for larger facilities, destination facilities, and dry storage options. Concurrently, the U.S. economy was on its way to what has become the second-longest bull market (at the moment) in U.S. history. These positive events over the last handful of years, combined with continuous growth in all sectors of the marine industry, set the stage for the outstanding year 2017 turned out to be.

Last year the marine industry reported exceptional growth with new powerboat registrations up 5% and new powerboat sales up 6%. This locked in 2017 as the 6th consecutive year of growth for the marine industry - an industry recently confirmed to contri- (Cont. on pg. 3)

Consolidation In The Marina Airspace

(cont. from pg 2)

bute more to national GDP than the agriculture and computer and electronic products industries! Consumer confidence also continues to rise for a number of reasons: the country is at its lowest level of unemployment since 2001, the recent tax reform put more disposable income in the pockets of Americans, and there is more confidence in businesses. The real testament to growing boater sentiment, however, is the demand for bigger and better vessels (average desired length is now between 38' and 50', versus the previous 28'-35' range). In addition, boaters demand additional features (i.e. the new joysticks for easier docking) and more horsepower, as Yamaha discovered earlier this year. Fortunately, these upgrades, repowers, and new boat purchases are more of a reality now than in years past because of both a strong stock and job market, high home equity and the recent tax reform. At the end of the day, the marine industry is booming and all of this great news translates to higher revenues and more valuable marina assets.



SAFE HARBOR MARINAS PARTNERS WITH BREWER YACHT YARDS

The first notable event of 2017 was the partnership between Safe Harbor Marinas and Brewer Yacht Yards in January. This move expanded Safe Harbor's portfolio considerably, and the group is now the country's leading owner-operator of marinas (68 marinas in 17 states). Organic growth was relatively rapid (within a 3-year timespan), but the strategic alliance with the well-known and highly reputable company Jack Brewer built nearly doubled Safe Harbor's portfolio. This move was great for boaters because expertise and operational efficiencies were expanded, as was industry knowledge between staff members. At the same time, this expanded chain of marinas under the Safe Harbor model gives boaters a better experience, more value, and reciprocity between locations – all without sacrificing the original and unique feel of any one particular marina.

SOUTH FLORIDA

Last year, big waves were made in South Florida by Suntex with several acquisitions and redevelopments. In April, the Dallas-based company acquired a 2,300-slip portfolio of 11 Loggerhead marinas throughout the state of Florida, making it the largest marina owner-operator in Florida. Of those 11 marinas, 8 were located in South Florida, which is a very big step for the company's growth and expansion plan that directly targets that market and the state of Florida in general.



Aside from the over 80 marina acquisitions in the industry between $500K-$80M, 2017 was also a big year for redevelopments specifically in the South Florida market. The Bahia Mar Yachting Center – home to the Fort Lauderdale International Boat Show (FLIBS) - was approved in December for its redevelopment into a marina village. There is an elaborate plan in place to transform the marina with over 600 apartments, restaurant and retail space, a 250+ room hotel, an amenities complex, and much more. Suntex also furthered its South Florida interest by being selected to redevelop the Las Olas Marina, as well as partner with RCI Group to redevelop the Virginia Key marina in Miami. The South Florida market is notable for the large volume of superyachts it attracts, and marinas in that region need to be able to accommodate the growing supply.

That is why the Las Olas Marina redevelopment is equally unique as it is crucial for the South Florida market – there is an unmistakable lack of superyacht slips. With the new adjustable dock system that is planned for the development, slips can be reconfigured based on what size vessel the marina needs to accommodate at any given time. Superyachts call the South Florida market home and without this upgrade, those boats would have to find dockage elsewhere – if elsewhere is even an option. We say this because with an ever-increasing number of superyachts in the water, and a tight supply of slips that can accommodate vessels 150'+, the supply will have to adjust greatly and at multiple locations to provide the adequate dockage that these vessels demand. Moving forward, this will continue to be an issue as more superyachts hit the water, but the supply and demand issue for the entire industry can be combatted by creating new dock layouts, dock expansions, and dry storage (when possible) for smaller vessels.

2018

While 2017 was a hot year for the marine industry, 2018 has been just as active through Q1 and into Q2 with Suntex acquiring an equity interest in Miami Beach Marina and ownership of Hurricane Marina in Tennessee; Safe Harbor Marinas acquiring a $61M West Palm Beach portfolio; and over 20 transactions YTD. Over half of the transactions this year have been in the Southeast, and we expect this trend to continue as the larger owner-operators carry on their expansion plans and new private investors become involved.



In addition to the operational and investment sides of the business, dock builders expect to stay busy all year between repair jobs and new construction. As stated above, demand for slips outweighs supply in many markets, creating a need for marinas to build more docks if they want to stay competitive and capture more business. In addition to new construction, repair projects have been underway at damaged facilities due to Hurricanes Irma and Harvey, as well as winter storms in northeastern states. These disasters have called for necessary repair work in addition to the expansions and new developments, which is another reason investors are keeping an eye on the marina industry – at a minimum, current owners are reinvesting in their operations and making their facilities more appealing with additional amenities. It's been said several times that additional dockage has been a growing need, especially for floating concrete slips (which tend to be preferred by larger yacht and super yacht owners), and we expect to see several more dock projects around the country as developments come online and existing marinas expand. (Cont. on pg. 6)

Marina Financing

By Terence Vanek ◊ Terence.Vanek@MarcusMillichap.com

Getting Your Marina Acquisition Approved By A Lender



Over the past decade, marinas have gotten a bad reputation from financial industries, commonly viewed as dangerous investments that are more subject to economic cycles because of their recreational nature. Translation, boats are expensive, thus vulnerable during hard times when consumers tighten their discretionary income. Slowly all the major banks stopped lending on marinas, leaving regional and local banks as the primary lending sources, all of which do not carry a sizable number of loans in their portfolio.

Lenders we have spoken with have a nearly universal consensus that marinas are recreational property and are therefore riskier loans than common property types like apartments, office, industrial or shopping centers (known as core commercial real estate). That's partly true and partly false. They are recreational property. Because they are a special purpose property with usually multiple operating business elements, they straddle the fence between business and real estate.

At your disposal are several types of service providers that may even reduce the risk of a loan to a level less than that of core commercial real estate.

- Marina management companies can help you determine if the marina is operating efficiently. A simple annual review of the financial statements costs very little in relation to the benefits.
- Marina design and construction firms can provide condition surveys for the docks and piling as well as a schedule of reserve allocations necessary to keep the facility running as well tomorrow, as it is today.
- Marina appraisers can also examine financial statements and relevant comps and provide the support for the loan to value you are seeking so you don't waste your time trying to obtain a loan that will not appraise.
- Initial condition reports can greatly improve your chances for loan commitment. This will help banks establish a mandatory reserve for their replacement escrow account. Based on the condition report, you can easily determine how much money needs to be set aside for reserves. Then the bank can make a requirement that a certain percentage be set aside in a reserve instead of what could be a much higher reserve level which ultimately reduces your loan amount.
- Hire an expert marina advisor/broker to examine the financial statements annually. By that we mean profit & loss and balance sheets. By examining the properties ratios, the business practices, the competition and buyer yields, the advisor/broker can tell you where an asset will trade in the market, what EBITDA a lender will consider lending on, determine loan to value (LTV), Debt Coverage Ratio, (DCR) and types of loans available so that you have a positive experience when seeking out a lender.

Example Terms for Marina Financing:

Loan Amount: Typically: $225,000 up to $15,000,000

Loan Term: 3 to 15-Year Terms (Up to 25 years for qualified SBA loans)

Amortization: 15 to 30-Year Terms

Interest Rates: 5%+ Fixed and Floating (Competitive rates based on risk profile and loan size)

Loan to Value: Up to 70% of Appraised Value for Conventional, 90% for SBA.

Origination Fee: Varies depending on loan size and credit profile.

Reserves: Standard Tax, Insurance and Capital Reserves required during loan term.

Sponsor/Borrower: Creditworthy individual(s) or entity acceptable to Lender.

Borrowing Entity: Single asset or special purpose entity required depending on loan size.

At the end of the day, most important to lenders is true profitability of the business. The first step in determining if a loan is worth making is to examine the financials. Unfortunately, marina owners generally make this a difficult thing for lenders. Marina owners tend not have a standardized accounting systems and software like other major property types. Owners can embed a variety of personal expenses in their financial statements that dilute net operating income and make the marina less attractive to a lender.



Once again, you can hire experts to restate incomes and expenses to give banks real numbers to lend on. Once you have the real credible financial statements, you can come up with a real debt coverage ratio (the amount banks require cash flow to exceed debt obligations) and loan terms that reflect the perceived risk of the investment. Not restating the income and expense statement or doing it without knowledge of how marinas operate, puts the loan at risk from day one. Debt coverage ratios vary significantly with marina loans based on perceived risk of the individual marina. One-size-fits-all works well with common property types, but not for a marina, as marinas vary so much in terms of business model, make up of slip and rack inventory, ancillary revenue services and market position. ◊

List of Major Lenders:

CREFCOA
Halo Capital
Kala Lending
Leisure Financial Group
Ocean Pacific Capital

State of the Marina investment Market

(cont. from pg 1)

Some marina owners are also capitalizing on their uplands for expansions on current storage operations or for mixed-use concepts. Dry storage is very popular and necessary in many locations, especially where water frontage is scarce. We expect to see these operations grow around the country as technology improves and wet slip occupancies increase. One of the biggest considerations to new dry storage developments is the growing trend in larger vessels - in length, height, and beam. This means the facilities will need a large enough footprint (more land) for the safe and efficient operation of traditional forklifts. As automation grows at marinas around the country, however, new developments could efficiently operate on tighter footprints with higher storage capacity, reducing the front-end investment and providing not just higher revenues down the road, but premier service to customers. As a mixed-use concept, upland areas are ideal for development into apartments/condos, retail, and office space (zoning permitting) and we are seeing that occur in real time at marinas around the country.

Number of Marinas Sold ⇧ / Median Prices & Average Prices ⇧

Economic Stability, Growing Earnings, Stable Occupancy and Demand Pushes Asset Pricing

The big news is the average price of marina assets is up 31.61%, to $5,341,645 from $4,058,722 in 2016. (See Figure 1) This is in light of a 13% increase in overall transactions between $500K and $50M. The median price remained constant at $3,000,000, which is a positive indicator of maintained valuations with greater volume. The average price a marina sells at in any given year is determined by the number of overall transactions that took place and how they were skewed (i.e. a greater number of high-end transactions compared to just a few medium-sized deals will result in an overall higher average). For this purpose, we exclude portfolio sales and properties above the $50M limit, as to provide accurate data on individual marina transactions that take place. That said, it should be noted that portfolio transactions did occur last year (notable acquisitions at that) including: Suntex Marinas' acquisition of 11 Loggerhead marinas throughout Florida, the **S**afe Harbor Marinas acquisition of two Southwest Florida marinas, as well as our team brokering the sale of a 5-marina portfolio that closed before the year's end. Consequently, we believe the median price of marina transactions is a better statistical indicator of true values year-over-year, with several factors supporting the last three years of growth for this metric. Unlike five years ago, financing is more obtainable because not only is the economy booming and interest rates are relatively low, but lenders have a better understanding of how to underwrite the asset. In addition, the recent consolidation and private equity involvement has increased lender confidence in income-producing marinas that can sustain current revenue streams and meet the required DSCR for a loan. Operationally, marinas are performing just as we expected in an industry where relative supply and demand balance are benefitting owners and investors. As facilities continue to upgrade, redevelop, and expand, we can expect occupancy and rental rates to continue their upward trend as boaters run into fewer storage options and prefer a better marina experience.

Number of Sales Increases

As you can see from Figure 2, the largest concentration of marina transactions since 2008 has been in the Southeast, followed by the Northeast. Collectively, these two regions make up almost 75% of all marina sales in the last decade. Between 2008 and 2010, transactions floated between 24 and 29 a year, until the asset class saw real growth in 2011 (42% increase in transaction volume from 2010). Marina transactions have increased consistently for the past 7 years, by a year-over-year average of 21%. The initial breakout in 2011 was prior to serious institutional involvement, which is evidenced by the increase in transaction volume through 2017 and 57% increase in average sales price in 2017 compared to sales in 2010. So why the acceleration in sales? There are a number of reasons. The economy at a macro level was the most glaring influence on the depressed sales volume, resulting in decreased marina occupancies, slumping new boat sales (down 24% in 2009), and low consumer confidence. As the economy strengthened, boaters had more equity in their homes, better paying jobs, confidence in the U.S. economy and more job security; as a result, they bought boats and got back out on the water. This translated to rising marina occupancies with new boats needing a place to be stored, which subsequently drove revenues and EBITDA. More recently, core commercial real estate investors are recognizing marinas as an investment vehicle, as there are growing trends in occupancy and earnings among others, and the traditional, core real estate assets are becoming more expensive with lower returns. Collectively, these market conditions should motivate core commercial real estate investors to chase yield into the marina airspace.

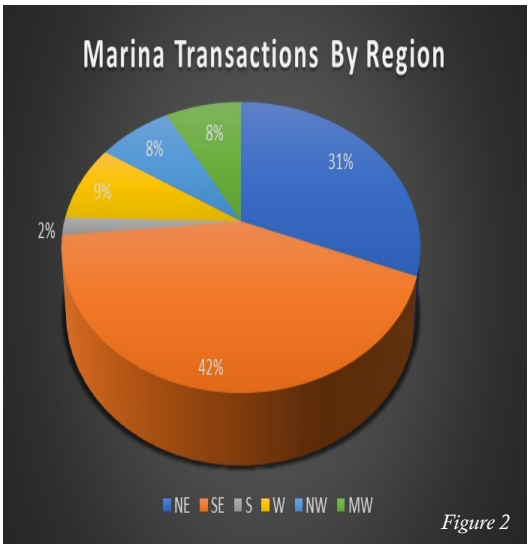


Figure 2

Tax Bill Holds Favorable Prospects for Marina Owners/ Investors

New tax law retains key provisions for real estate investors. The highly anticipated tax reform recently signed into law by President Trump, retained numerous key marina investor provisions. The 1031 tax deferred exchange, the mortgage deduction for investment real estate and asset depreciation had few material changes. This consistency in tax law will enable marina investors to move forward with most of their existing strategies. That said, there are many provisions in the new tax law that will have a more nuanced effect on the marina sector, and these subtler adjustments could create significant new opportunities for marina investors. (Cont. on pg. 7)

Consolidation In The Marina Airspace

(cont. from pg 3)

especially for floating concrete slips (which tend to be preferred by larger yacht and superyacht owners), and we expect to see several more dock projects around the country as developments come online and existing marinas expand.

LOOKING FORWARD

The strong consumer confidence in the industry, demand for slips and dry storage, and the abundance of redevelopment projects especially in South Florida can be expected to continue through 2018. Many of the larger owners have their eyes locked in on the Southeast region with portfolio goals that emphasize expansion. That said, we do expect to see the institutional players grow their Florida presence and portfolios in general throughout 2018, while simultaneously updating and renovating existing operations. In addition, the level of service boat clubs can expect to see growth since the industry as a whole must focus on the next generation of boaters and accommodate their financial situations and experience with the hobby. When we look back at the phenomenal year 2017 was for the marine industry, the strong numbers and continued growth throughout all sectors of the marine industry support the capital-intensive redevelopments currently taking place that will modernize facilities, add more services, and cater to larger vessels. Fortunately, we expect these trends and consumer sentiments to continue in 2018. ◊

2017 Sales Activity—The $1M-10M Tranche

By Brett Murphy ◊ Brett.Murphy@MarcusMillichap.com

The Leisure Investment Properties Group tracked a total of 84 marina transactions in the $500k to $50M range in 2017. This increase in transaction volume was the result of many factors, including high valuations, a strong economy, and consolidation by larger owner-operators. In addition, many other private owner-operators continued to build their portfolios by expanding their footprints in their primary geographic markets, as well as into new territories to grow their brand. We expect to see continued growth in 2018, as well as new players entering the market with a particular focus on the Southeast region where 40% of the transactions occurred last year and 57% have occurred in 2018 YTD.

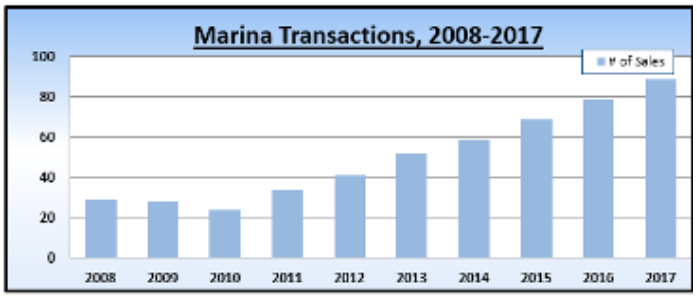
When we look at the change in number of marina sales from 2016 to 2017, we see a 13% increase in transactions – the majority of which fall into the "core" investment tranche of $1M-$10M (65% of 2017 transactions). Throughout the $1M-$10M tranche is where we see private clients building their portfolios and new investors entering the market with assets that are not only financeable, but in their desired size range. Compared against data going back to 2008, we can conclude that last year's 31.61% increase in average sale price to $5,341,645 is the highest average of the last decade. This is partially due to a 167% increase in transactions in the $10M-$30M range. At the same time, however, we also saw the greatest number of transactions between $500Kand $1M than in any other year. Even with these sales, 2017 had a very strong year in terms of the number of transactions and prices that sellers were able to achieve.

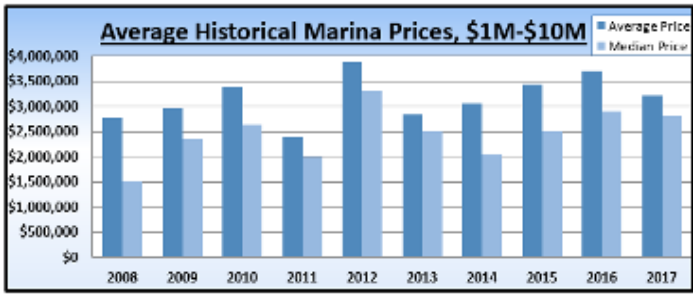
Looking at the $1M to $10M tranche, we did see a 13.37% decline in average sales price from $3,707,707 in 2016 to $3,212,108 in 2017. This change is merely the result of more transactions occurring at lower price points than in 2016 within this investment tranche. As stated above, 12% of 2017 sales occurred under $1M (nearly 3x the amount in 2016), while 20% of the transactions in 2017 occurred between $10M and $30M. It is in this range that we see the larger owner-operators focusing their time, attention, and capital, primarily due to the large size of the marina (500+ slips) and consistently high revenues.

Based on this data, we can infer that the maintained transaction volume for deals in the $1M-$5M range (at a lower average sales price than in 2016) is what impacted the overall average sales price for the tranche. This is because the average sales price for the entire year is up, the median sales price remained constant, and there is clear interest and desire for larger, high-end marina assets.

As for median sales price in the $1M-$10M range, we saw a 2.59% decline to $2,825,000. This tranche was down 7.94% as a whole from 2016, yet we saw nearly 80% of transactions occur between $1M and $5M. The maintained volume in the lower half of this investment tranche tells us where the largest portion of the buyer pool is focused on, with inventory at this level accounting for 53% of all 2017 transactions. Complemented by almost double the growth of marinas that trade over $10M (with the highest price up 83% from 2016), it is safe to say that 2017 was a very successful year around the country, with many of these trends expected to continue through 2018. ◊

(Cont. on page 10)





State of the Marina investment Market

(cont. from pg 5)

Finalization of tax rules to reduce uncertainty. Over the last year, elevated uncertainty generated by the range of potential government policy changes, including tax laws, caused some marina and non-marina investors to move to the sidelines. A more cautious outlook pervaded the industry as some investor's awaited clarity on taxes, fiscal policy and a change in Federal Reserve leadership. This perspective could begin to ease as the implications of the new tax law firm up and investors better understand how the new rules will affect their investments. The new tax plan offers generous tax cuts to corporations and pass-through entities such as Limited Liability Companies (LLCs), and investors may see the new tax rules as an opportunity to reconfigure their portfolios. It also took out the mandate to buy the Affordable Health Care Act, known as Obama Care's penalty for not buying insurance. The new tax structure will apply to 2018 income for tax filings in 2019.

Reduced taxes on pass-through entities may boost capital flows. Perhaps more important than the modest changes to the core commercial real estate tax rules that investors have been most focused on is the reduction of taxes on pass-through entities. Owners of these types of companies will enjoy a 20 % deduction on pass-through income, though there are several restrictions that will apply to this deduction. This favorable tax treatment will encourage investors to increasingly focus on after-tax yields when comparing their investment alternatives. On an after-tax basis, marinas could offer a much stronger risk-adjusted return than options such as dividend stocks and bonds. This could entice additional passive capital to flow to the marina sector through syndicators, partnerships and other pass- through funds. This influx of capital, should it manifest could create more demand for marina assets and, ultimately, place downward pressure on EBITDA multipliers/cap rates.



Expanded expensing rules benefit marina real estate. Changes to the Section 179 depreciation rules will favor several niche real estate investments like marinas. Under the revisions, business owners will be able to fully expense up to $1 million of depreciable tangible personal property used to furnish lodgings. Certainly, this would apply to any marina resort and it may extend to marina clubhouses, Yacht clubs we just aren't clear on this yet. This change will allow investors with investments such as hospitality, student housing and seniors housing to deduct the full cost of furniture placed in service at their properties rather than depreciating them over multiple years. The rules also extend to roofs, heating, ventilation and security systems in non-residential property. This provision is largely targeted toward small businesses, so the deduction phases out as business investment purchases exceed $2.5 million.

Deduct the full cost of furniture placed in service at their properties rather than depreciations them over multiple years. The rules also extend to roofs, heating, ventilation and security systems in non-residential property. This provision is largely targeted toward small businesses, so the deduction phases out as business investment purchases exceed $2.5M.

Fed Increases Interest Rates

On top of a market that was already lending-restricted, we had another interest rate hike and are likely to have a few more by the end of 2018, making the cost of capital more expensive. The new Fed chairman will increase interest rates as the economy continues to heat up, in order to combat inflation, and that's when we can expect to see a lower availability of marina financing. Furthermore, a higher cost of debt will result in decreased values for sellers, in turn pushing capitalization rates higher.

Weather – Kind to Some, Devastating to Most

Last year, the Southeast region of the United States experienced two of the most devastating hurricanes to date – Hurricane Harvey and Hurricane Irma. Collectively, these storms caused over $180 billion in estimated damages (with Hurricane Harvey tying Hurricane Katrina as the costliest). Marinas in the Keys, South Florida, and Southwest Florida experienced the largest hits from Irma, as did marinas in the Houston and Aransas County areas from Harvey. Docks were ripped apart, boats were destroyed, and for many owners, their operations will need a complete overhaul to recover. Aside from the actual marina, these hurricanes were estimated to have damaged over 63,000 boats combined, or the equivalent of approximately $655 million. Figures like these resemble the impact Hurricane Sandy had on the marine industry in 2012, devastating marinas in the Mid-Atlantic and Northeast, particularly Connecticut, New Jersey, and New York. Marinas have been rebuilding as a result, while neighboring facilities have profited. They have seen growth in their waiting lists due to relocating boats, rental rates are being pushed higher, and owners can be more selective on the quality of tenant and boat that they allow into their marina.

The Northeast experienced severe weather as well this winter, with ice jacking and ice floes threatening docks and operations. Ice jacking occurs when water freezes around a pile and is then moved by rising water levels. Over time, and with enough frequency, this process can effectively force a pile out of the ground and destroy the dock. Ice floes, on the other hand, will wipe out docks in a less gradual manner and with more force. Essentially large chunks of moving ice, they will destroy any object in its path, which for marinas are the docks. Maintaining a proactive mindset and understanding the weather your marina will experience are primary for limiting the financial burden you will have over the course of your hold period. In addition, there are several procedures and tools (i.e. ice booms) that you can use to control the impact winter might have on your marina. (Cont. on pg. 8)

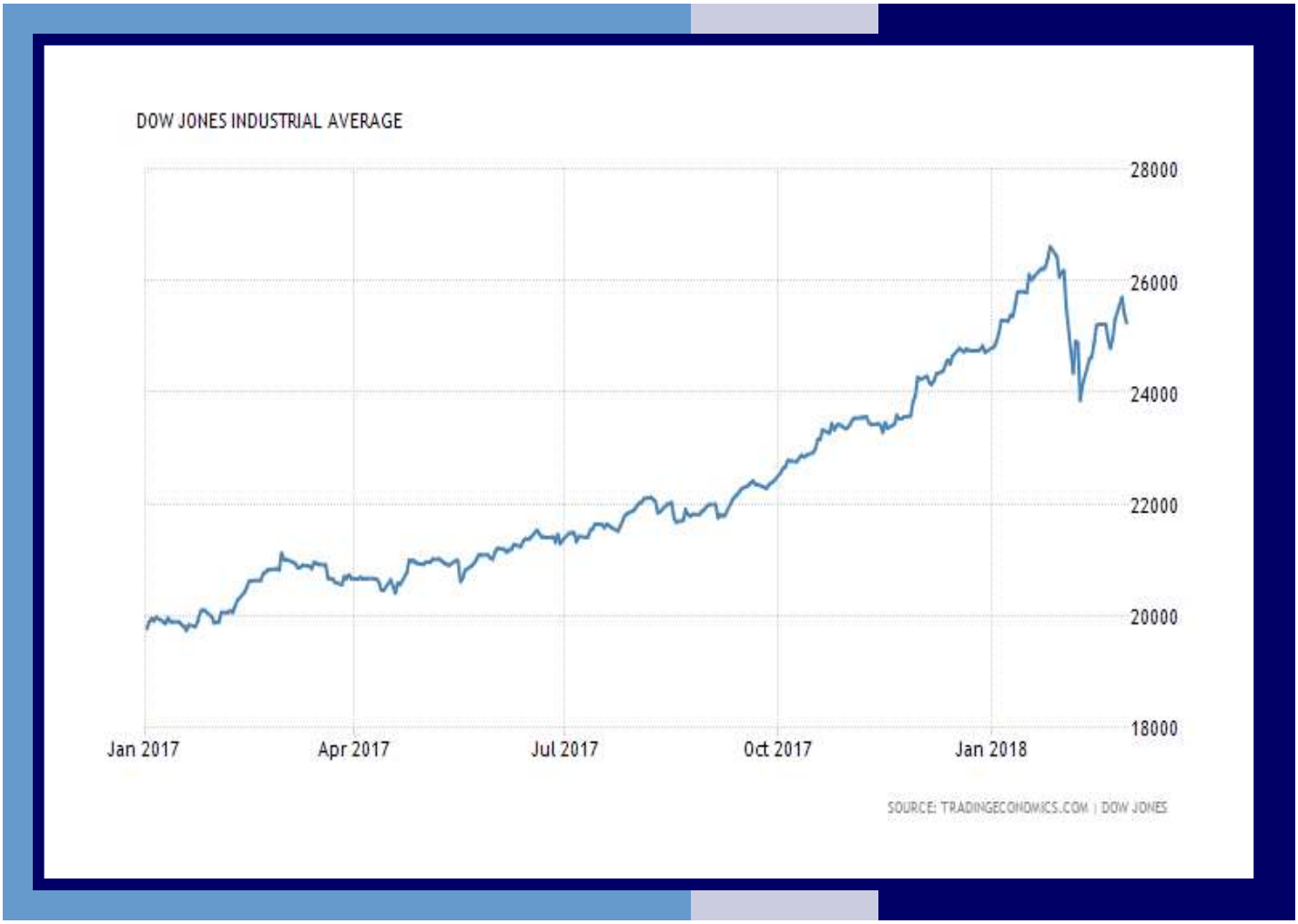


State of the Marina investment Market

(cont. from pg 7)

Stock Mark Volatility is Back

After 109 months of steady Dow Jones Industrial increase, in February, the stock market went on a roller coaster ride that made even the most ardent investors queasy. The Dow could not go up indefinitely with no pull back, so after 109 months it happened. The industry pundits are telling us this is normal, we needed a break, trillions of dollars of wealth where created since Trump was elected, form around 18,000 on the Dow prior to his inauguration to 26,000 on February 1, 2018. All that new wealth will give both existing trade up boat owners and new boat owners increased buying power, which is good for an industry that relies heavily on discretionary spending.



Summary:

- The US stock market has created trillions of dollars in net worth.
- We continue to have little new supply of new marinas developed in the US.
- The US economy is steaming ahead at its fastest pace in 8 years.
- Marina occupancies are high.
- We have had increases in rental rates which will drive EBITDA higher.
- We had major tax reform that will deploy capital into commercial real estate.
- Core commercial real estate yields compressed, yield-driven investors will seek marina opportunities.
- Tax reform provided some unique advantages to marina owners.

Right now, if you are in the marina industry the future looks bright.

(Cont. on pg. 9)

STATE OF THE MARINA INVESTMENT MARKET

(CONT. FROM PG 8)

Marcus & Millichap

TAX REFORM: 2017 TAX LAW vs. 2018 TAX CUTS AND JOBS ACT

Provision	Old Tax Law (2017)	Tax Cuts & Job Act (provisions effective beginning 2018)
Like-Kind Exchanges	Available under current law for property held for investment	Retained for real property only (real estate).
Business Interest Deductibility	Fully deductible for all businesses	Fully deductible for real estate businesses with some exceptions. Limits on interest deductibility apply to firms outside of real estate with exception for businesses with average annual gross receipts of less than $25 million over past three years.
Depreciation of Buildings	Residential 27.5 years, Nonresidential 39 years	If the mortgage interest deduction is used, then the depreciation timeline for commercial properties increases to 40 years and for residential properties it rises to 30 years.
Carried Interest	Taxed at capital gains rates if held at least a year	Taxed at capital gains rates if held at least a year
Estate Tax	Flow-through entity: Maximum rate of 39.6% REIT dividend maximum rate of 39.6% Corporation: Maximum Rate of 35%	Flow-through entity: 20 percent deduction available for qualified pass-through income with some exceptions. REIT dividends eligible for 20 percent deduction. Corporation: Maximum rate of 21 percent. Flow-through entity deduction sunset after 2025.
Business Tax Rates		Corporate rate cut permanent.
Active Losses	Fully deductible against active income	Deduction of net active pass-through losses against wage or portfolio income limited to $500,000 (married filers) and $250,000 (single filers).
Individual Tax Rates	39.6 percent; highest rate effective at $418,400 (single filers) $470,700 (married filers).	Disallowed losses may be carried forward as part of a taxpayer's net operating loss. Provision effective through 2025. Seven tax brackets ranging from 10 percent to 37 percent. Highest rate effective at $500,000 (single filers)/$600,000 (married filers). Rate structure expires after 2025.
Standard Deduction	Single: $6,350, Married: $12,700	Single: $12,000, Married: $24,000.
State and Local Taxes (SALT)	State and Local Taxes (SALT) deductible. Available deduction declines for income above $266,700 (single); $320,000 (married).	$10,000 limit on deduction of state and local taxes including property tax and either income tax or sales tax.
Mortgage Interest Deduction (personal)	Deduct interest for primary or secondary residence up to $500,000 (single) or $1,000,000 (married). Home Equity Line of Credit deductible up to $100,000.	Deduct interest for primary or secondary residence up to $750,000. Home Equity Line of Credit no longer deductible. Loans prior to Dec. 16, 2017, grandfathered. $5.49 million ($10.98 million per couple) exclusion, 40 percent rate, and stepped-up basis for inherited assets.

2017 Sales Activity — The $1M-$10M Investment Tranche

(cont. from pg 6)

RECENT SALES

Marina Name	Sale Price	Month	Market	State
Fox 14 Marina	$2,500,000	June	Algonquin	IL
Two Georges Marina	$2,750,000	June	Shalimar	FL
Pine Island Resort	$2,750,000	July	Seville	FL
Sunset Harbor Marina	$2,750,000	November	Baltimore	MD
Walker's Hideaway Marina - Cape Coral	$2,900,000	November	Cape Coral	FL
Humbug Marina	$2,900,000	June	Gibraltar	MI
Sag Harbor Yacht Yard	$3,000,000	October	Sag Harbor	NY
Norview Marina	$3,050,000	April	Deltaville	VA
Schmid Marina	$3,061,000	September	New Baltimore	MI
Julington Creek Pier 3 Marina & Dry Sto.	$3,150,000	June	Jacksonville	FL
Sugar Dock	$3,250,000	September	Richmond	CA
Grassy Key Marina	$3,270,000	April	Marathon	FL
A1A Boat Marina	$3,500,000	June	Fort Lauderdale	FL
Riverfront Marina	$3,500,000	November	Newburgh	NY
Horny Goat Marina	$3,600,000	April	Milwaukee	WI
LaPrade's Marina	$3,700,000	October	Clarkesville	GA
Shipwright Harbor Marina	$3,800,000	January	Deale	MD
The Sailing Emporium	$3,800,000	December	Rock Hall	MD
Bay View Event Center	$4,250,000	June	Excelsior	MN
Shep Brown's Boat Basin	$4,250,000	August	Meredith	NH
McGinnis Marine Moorage	$5,000,000	March	Seattle	WA
Laughlin Bay Marina	$5,050,000	March	Laughlin	NV
Pier 105 Marina	$5,300,000	June	Montgomery	TX
Gallatin Marina	$6,200,000	October	Gallatin	TN
Stony Point Bay Marina	$6,747,000	May	Stony Point	NY
Key West Harbour	$6,950,000	July	Key West	FL
Prime Marina Southampton	$8,500,000	March	Hampton Bays	NY
Yarrow Bay Marina	$10,800,000	August	Kirkland	WA
Union Dry Dock	$11,500,000	November	Hoboken	NJ
Cape Harbour Marina	$13,000,000	January	Cape Coral	FL
Aquamarina Sunset Harbour	$13,500,000	February	East Patchogue	NY
The Plantation Inn	$14,200,000	January	Crystal River	FL
Huntington Harbour Marina	$14,486,542	April	Huntington Beach	CA
Calusa Island Marina	$15,250,000	March	Goodland	FL
Burnt Store Marina	$16,000,000	January	Punta Gorda	FL
Philadelphia Marine Center	$21,400,000	March	Philadelphia	PA
Tierra Verde Resort & Marina	$22,500,000	July	Tierra Verde	FL
The Sails Marina	$24,000,000	July	Fort Lauderdale	FL
Suntex Loggerhead Portfolio	$100,000,000+*	April	South Florida	FL

*Estimated portfolio size based on available information
**Sales under $2.5M are not shown
***Not the complete 2017 list

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