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Market Update

2019 MARINA INVESTMENT REPORT



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STATE OF THE MARINA INVESTMENT MARKET

By Steven Ekovich ♦ Steven.Ekovich@MarcusMillichap.com



OCCUPANCY ↑ MEDIAN MARINA SALE PRICE ↓ AVERAGE MARINA SALE PRICE ↓
OF MARINA SALES- ↑ BOAT SALES UP ↑ STOCK MARKET- ↓ INTEREST RATES ↑

2018 was another great year for marina owners and investors, as both external and internal factors conspired to boost the industries' occupancy and profitability. What does this mean to you as a marina owner/investor and what could 2019 look like?

"Before we discuss the state of the marina investment market, I want to highlight a few key talking points throughout the report. First, this year's publication features an exclusive interview with the CEO of Freedom Boat Club, John Giglio (highlighting the tremendous job he and his company have done in transforming the way younger generations can get involved with boating, how their platform benefits marinas around the country, and how the overall demographic shift we are experiencing in the industry can be combatted moving forward). Next, marina financing is still available and we will be looking at some of the common metrics and terms that can help investors acquire marina assets. Lastly, we look at how the core investment tranche of marina transactions has trended over the last ten fiscal years and analyze what that data means for marinas in the future." – Steven Ekovich, National Director (Continued on Page 4)

FREEDOM BOAT CLUB INTERVIEW

Jeffrey Spilman ♦ Jeffrey.Spilman@MarcusMillichap.com

This year we have added a new section to our Marina Investment Report. Featuring a mover and shaker in the marina investment community, we are excited to have interviewed John Giglio, President and CEO of Freedom Boat Club (FBC). Our group put together a number of questions that we thought would help the industry understand Freedom Boat Club's view of the marina industry, the outlook on the boat rental market, their strategy moving forward and opportunities that lie ahead. We thank John for his participation.

Since John assumed the helm of FBC in 2012, the company has doubled its growth and has continued to receive multiple recognitions both within and outside the marine industry. FBC has been named on Entrepreneur's Magazine "Top 500 Franchisees" for the past five years; the Gulf Coast Business Review's "Top 500 Companies"; and Inc. Magazine's "Top 5,000 Fastest Growing Companies". Boating Industry Magazine named John to its roster of "Top 16 Movers and Shakers" in 2013.

Q: Freedom Boat Club has had a profound effect on the marina and boating business. Early on in your business, what did you see in the market that convinced you that the boating club was a viable business plan?

Giglio: I was fortunate to work for Freedom Boat Club for seven years before I had the opportunity to purchase the company. Over that period, I learned the nuances (Continued on Page 2)

RECENTLY SOLD



Lady's Island Marina | Beaufort, SC

RECENTLY SOLD



Surfside Martina | Surfside Beach, TX

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FREEDOM BOAT CLUB INTERVIEW

of the boat club business and became very familiar with our members and their motivations for joining the club. When you combine the exceptional service and value the club provides to the consumer, with the secure recurring revenue model for the business, and the explosion of the global sharing economy, we have a very strong recipe for success.

Q: What are some of the more interesting changes you have seen in the marina business in the last 5-10 years?

Giglio: The industry has seen an incredible appetite for institutional properties by some of the larger marina operators as they seek to roll up large portfolios for IPO's or REITs. They prefer properties with many revenue sources and overall it has created a very fluid market for sales and acquisitions. As marinas invest in infrastructure, the marinas themselves are changing as well, catering to bigger and wider slips to accommodate growing segments of boats such as large outboards and catamarans.

Q: You provide many different types of boats to your members. Have you noticed a change in the types of boats your members are asking for in the last 5 years? What changes have you responded to?

Giglio: The demand for pontoons has mirrored industry trends and have a strong preference among our members. We've also seen a growing base of fishermen among our members. One of the big benefits to be a member of Freedom Boat Club is the fact that you can choose from all the boats in our fleet, so you can go boating on several styles of boats in addition to the pontoons, runabouts, deck boats and skiffs.

Q: You have clubs in both saltwater and freshwater marinas. Is there a difference in the type of boats your members request on lakes as opposed to saltwater?

Giglio: The only real difference we see is that on freshwater lakes, many of our members will prefer an I/O because of the larger swim platforms that give easy access to the water. Also, shallow water operation and concerns over draft are not as common on lakes compared to coastal areas.

Q: For any marina operator that may read this, what type of storage do you prefer? Slips, racks, or surface?

Giglio: We will always prefer in-water slips but do operate from racks or surface storage in several marinas. Compared to the average boat kept in a rack, the high frequency of our boats going in and out of the water put more cycles on the forklift and other dock operations. It can also be a little more work for the marina staff, but we make it work.

Q: What would you consider your main competition? What are the differences?

Giglio: 1) Large boat builders who are expanding into boat clubs. While this is only announced at this point, we expect the Brunswick Corporation to invest heavily in the boat club model. We aren't yet sure what exactly they will offer or how they will differentiate. 2) Boat dealers. — Many boat dealers or marina owners will start up their own local boat club. While many of these are run very well, others are not. Additionally, even those run very well are local only – without the reciprocal access afforded to members of the Freedom Boat Club. These clubs tend to be attractive for those who truly don't intend to boat outside their local marina. 3) Other clubs (both marine and non-marine related).

Q: Early in your business history, how did you convince marina owners that the club as a tenant was good for business?

Giglio: Over the years that has been a challenge and to this day not all marina owners believe in this model. I have always believed that business breeds business and an active marina is going to attract customers. Unlike typical single-owner boats, our boats get used almost every day. The marina will benefit with increased fuel sales, restaurant traffic, bait and ship store sales and more support for all other businesses based at that marina. If we are given a chance to come into a partner marina, we know the benefits to that marina far outweigh the negatives and we will prove that in a very short period.

Q: What advantages does Freedom offer the operator in exchange for committing spaces to Freedom instead of leasing to individuals.

Giglio: There are several advantages, including: Increased foot traffic to the marina with many members taking boats out each day; Increased fuel sales for many members vs. one boat owner; Increased patronage at marina-based restaurant and ship store; Growth opportunities for more slip usage.

We pay for all our slips on time, and with one check. Some marina operators love to see us expand knowing that it only makes their job easier!



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FREEDOM BOAT CLUB INTERVIEW

Q: Because you are located all over the country, are marina operators calling you now?

Giglio: Yes, Freedom Boat Club has a relatively steady influx of inquiries from marina owners who are interested in starting boat clubs at their facilities.

Q: Do you see operators offering to lease more spaces to FBC after seeing the increased activity your platform brings to the marina?

Giglio: Yes, without a doubt. We are a great tenant and partner to a marina. Our clubs help the marina become a destination for a larger number of people. We increase revenue for the marina on all levels and are a significant and growing part of the boating landscape.

Q: Are certain types of marinas a better fit for your model, like resort lake vs saltwater non-resort?

Giglio: With over 170 successful boat club locations in operation today, FBC has pretty much all scenarios covered at least once! The best fit is a marina that has a few key aspects:

- a) space for many boat club boats (as our clubs are successful and tend to grow rapidly);
- b) enough convenient parking for members;
- c) fuel availability – which enables the FBC staff to quickly refuel club boats;
- d) restaurant on premises – as these tend to be well used by boat club members after their day on the water.

Q: Are there any demographics that are not currently using boat clubs that you think may change?

Giglio: The FBC member demographics match the boating community in the area of the club. So, we certainly see increases in women boaters, minority boating, etc., but these tend to mimic the general boating community in the area more than specifically the boat club model.

Q: How often do you find yourself leasing additional slips or downsizing, and how does location play a part?

Giglio: Opening a boat club location requires a serious dedication of resources. We do our homework before opening a location, so we see ourselves growing at that location.

Q: We are interested in demographic changes that may be taking place in the marina and boating business. Are you noticing any changes in the type of members you are attracting?

Giglio: Around the country, we have seen an uptick in the number of millennials joining the club. Because of their interest in the sharing economy model, many of them would prefer to not own their own boat and deal with the hassles.

Q: How did the Great Recession affect your business?

Giglio: Our business grew very rapidly during the depth of the recession. In many instances people were forced to give up their boats but did not want to give up boating. Additionally, as marina occupancy decreased around the country, that presented exceptional expansion opportunities for the club.

For more information on Freedom Boat Club, visit: www.freedomboatclub.com



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STATE OF THE MARINA INVESTMENT MARKET

Overall marina occupancy remained strong throughout the industry in 2018 as boat sales continued to grow for the seventh year in a row. According to industry data, new powerboat sales were up 4% for the year, largely due to high consumer confidence, job and wage growth (contributing to more disposable income for would be boaters), and a maintained imbalance of the demand for dockage/storage growing faster than supply. Pontoons were the fastest-growing segment of boat sales in 2017, and we continued to see increased demand for this style of boat in 2018 (4-6% increase).

Average and Median Marina Sales Prices

As we look at the marina investment market, the bell weather metrics of the industry are both median and average marina prices/values. Each owner and buyer is invariably tied to these metrics when considering an acquisition or disposition of a marina asset.

In an effort to have sales data ready for IMBC, we modified the methodology of tracking median and average sales this year to reflect sales on a fiscal year (FY) basis. Reporting agencies are typically 2-3 months behind, so we believe this tracking method will allow us to convey more accurate information from Q4 of the year prior, through Q3 of the current year in analysis (i.e. for FY 2018, we looked at the last quarter of 2017 through the third quarter of 2018).

The average price a marina sells for 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 \$30M limit, as to provide accurate data on individual marina transactions that take place.

As you can see from the chart below, over the last four years the average price is down from FY 2015. In FY 2018, the median price was up slightly after being down in FY 2017.

It seems that one could conclude that interest rates have had some effect on pricing up to this point, as well as the high quantity of smaller sales that ultimately skew the average and median sales prices.

Marina Financing

Unlike five years ago, financing is more obtainable due to several factors: 1) the economy is booming; 2) interest rates are still relatively low on a historical basis; and 3) lenders have a better understanding of how to underwrite the asset (to name a few). In addition, the recent consolidation and equity involvement in marina acquisitions has increased lender confidence in income-producing marinas that can sustain current revenue streams and meet the required DSCR for a loan. *(Continued on Page 5)*

LIPG - National Marina Sales History

	# of Sales	Average Price	% Change	Lowest Price	% Change	Highest Price	% Change	Median Price	% Change
FY 2008	14	\$ 4,968,407	N/A	\$ 1,040,000	N/A	\$ 16,632,000	N/A	\$ 2,547,500	N/A
FY 2009	29	\$ 3,277,969	-34.02%	\$ 900,000	-13.46%	\$ 21,500,000	29.27%	\$ 2,000,000	-21.49%
FY 2010	33	\$ 3,485,579	6.33%	\$ 721,000	-19.89%	\$ 16,204,400	-24.63%	\$ 2,888,000	44.40%
FY 2011	37	\$ 3,094,479	-11.22%	\$ 1,026,000	42.30%	\$ 11,688,114	-27.87%	\$ 2,155,244	-25.37%
FY 2012	50	\$ 2,881,305	-6.89%	\$ 550,000	-46.39%	\$ 8,200,000	-29.84%	\$ 2,000,000	-7.20%
FY 2013	54	\$ 3,225,398	11.94%	\$ 500,000	-9.09%	\$ 15,628,392	90.59%	\$ 2,000,000	0.00%
FY 2014	68	\$ 2,875,225	-10.86%	\$ 760,500	52.10%	\$ 10,224,000	-34.58%	\$ 2,105,000	5.25%
FY 2015	68	\$ 4,658,682	62.03%	\$ 500,000	-34.25%	\$ 27,000,000	164.08%	\$ 3,080,000	46.32%
FY 2016	84	\$ 4,245,348	-8.87%	\$ 500,000	0.00%	\$ 14,100,000	-47.78%	\$ 3,100,000	0.65%
FY 2017	99	\$ 4,197,862	-1.12%	\$ 537,000	7.40%	\$ 24,000,000	70.21%	\$ 2,330,000	-24.84%
FY 2018	118	\$ 3,627,554	-13.59%	\$ 500,000	-6.89%	\$ 22,500,000	-6.25%	\$ 2,337,400	0.32%
TOTAL	654	\$ 3,707,844							

Outliers Removed (<\$500k or >\$30M)

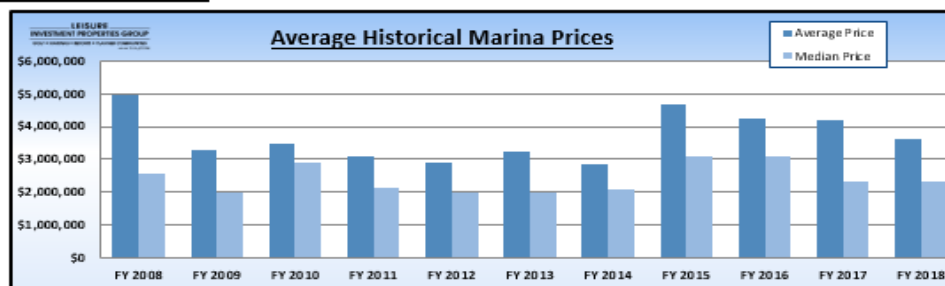


Fig. 1

***Data Courtesy of the Leisure Investment Properties Group of Marcus & Millichap Real Estate Investment Services:

www.LeisurePropertiesGroup.com

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STATE OF THE MARINA INVESTMENT MARKET

Operationally, marinas are performing just as we expected in an industry where relative demand seems to be outstripping supply and is benefitting owners and investors alike. 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.

Increase in Marina Transactions

As you can see from Figure 2 below, the largest concentration of marina transactions in FY 2018 was the Southeast, followed by the Northeast. Collectively, these two regions make up over 75% of all marina transactions in FY 2018. When we look at the fiscal year ends going back to 2008, transactions have steadily increased year-over-year (YOY) (Figure 3). It is clear that a robust economy, relatively low interest rates, low unemployment, institutional capital and limited new marina development has helped marina values rise significantly above 2014 levels. 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 allowing existing marina owners more exit options which ultimately creates more sales. We are receiving calls monthly from private equity, family offices and new investors to the marina airspace looking to enter the industry as a result of the factors discussed above.

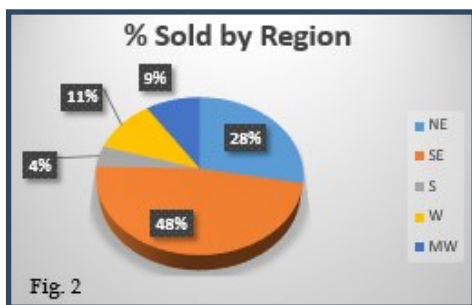


Fig. 2



Fig. 3

Boat Sales

U.S. Recreational Boating by the Numbers (Source: NMMA's 2018 Recreational Boating Statistical Abstract)

- Annual U.S. sales of boats, marine products and services totaled \$41 billion in 2018, an increase of 5% from 2017 (slower growth compared to the 7% in 2017)
- New powerboat sales increased by 4% to approximately 280,000 new units (5% increase in 2017)
- Approximately 95% of boats are 26' or less – this has stayed consistent with the average we saw in 2017 as well

Top 3 States for Recreational Boating Economic Activity:

1. Florida: \$23.3 billion
2. California: \$13 billion
3. New York: \$8.4 billion

New boat sales, as well as pre-owned boat sales, activity is optimistic going into 2019. Given the great economy, high performance of marinas around the country, high consumer confidence, and encouraging outlook for younger generations getting involved in boating, we can project new powerboat, engines, and accessories to continue to grow, although likely at a slower rate in 2019.

Fed Increases Interest Rates Four Times

Policymakers ended a two-day meeting in December by voting to raise the central bank's benchmark interest rate to a range of 2.25 to 2.5 percent. **This was the fourth rate-hike of 2018 and the ninth increase** since the Fed began raising rates from near-zero three years ago. (See Figure 4 below) The Federal Reserve prefers to keep the fed funds rate between 2 and 5 percent. It's the sweet spot that maintains a healthy economy. That's where the nation's gross domestic product grows between 2 percent and 3 percent annually. It has a natural unemployment rate between 4.5 percent and 5 percent. Price increases remain below the Fed's inflation target of a 2 percent core inflation rate. The current fed funds rate is 2.5 percent.

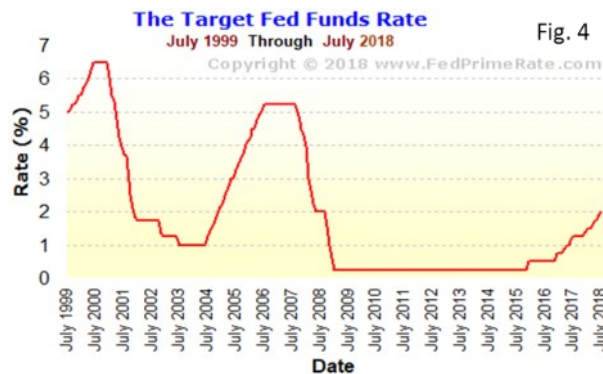


Fig. 4

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STATE OF THE MARINA INVESTMENT MARKET

We can expect the new Fed Chairman to 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. With this higher cost of debt, sellers will be faced with decreased values than in a lower interest rate environment, as well as a higher capitalization rate in order for a deal to make financial sense from a buying perspective. The danger on the horizon from these interest rates increases is an inversion of short-term bond rate yields above long-term yields. In the past when this happens it almost always predicted a recession. We are very close to an inversion right now. We will have another recession, but when. The caution in the 2019 prediction is, if the Fed continues to peruse this aggressive increase in interest rates, they could put us into a recession.

Although there were three rate hikes projected for this year, we are currently in a pause to let the economy adjust and move forward accordingly, giving owners more time to capitalize on profitability and plan their exit strategy.

The Stock Market

The Dow Jones Industrial average in March of this year was at 26,616. As of this writing on 12/29/2018, the DJIA is at 22,875, a decrease of 3,741 (a 14% decline since March (See Figure 5). The industry pundits are telling us this is normal, we needed a break, trillions of dollars of wealth were created since Trump was elected, from around 18,000 on the Dow prior to his inauguration in 2/1/2018 to 22,875 today. 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.



Fig. 5

We typically see a direct correlation between consumer spending habits in the marine industry and the stock market. When the stock market is growing, consumers feel more bullish about buying a boat, renting a slip and spending those discretionary dollars. When the stock market goes down, however, those same individuals are usually more cautious about spending discretionary income and are focus more on saving. Similarly, a marina buyer who may have had \$2M to invest (e.g. sitting in his stock account) now has 14% less to invest. This means that investors is faced with fewer

options in a marina asset, and smaller options at that. In some situations, an investor may have to drop out of a deal because their capital was eroded and they no longer have the wherewithal to complete the transaction. We urge our clients and every investor to stay cognizant of the stock market, and to not discount the respective effects it has on our industry and marina investments.

Dry Storage Development

We believe marina owners will continue capitalizing on their uplands for expanding 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, but also where the market caters to larger vessels (overall, boats are getting larger in length, height, and beam). The ability to move smaller boats out of the water to secure larger boats in the wet slips is a strategy that should be considered and one that can pay off given the larger annual contracts that can be secured with larger boats. Those larger boats that once were not accommodated at the marina can now contribute to other profit centers in addition to the wet slip rental (i.e. fuel sales, restaurants, ship's store).

As automation grows at marinas around the country, new developments could efficiently operate on tighter footprints with higher storage capabilities, reducing the front-end investment and providing not just higher revenues down the road, but premier service to customers. As a mixed-use concept, those upland areas are ideal for development into apartments/condos, retail, and office space (if the desired zoning can be achieved), and we are seeing that occur in real time at marinas around the country.

The return on investment (ROI) of constructing a dry stack building, hiring a well-trained staff, and maintaining the insurance and equipment costs must also be weighed to determine how this type of redevelopment fits in with your (the marina owner) personal and professional goals with the asset. When we talk to marina owners, a lot of them have already built into their mind an exit strategy of selling to a developer, thinking that any piece of land can be built on for condos and their land is worth five times what it is as a marina. While this is true in some cases, marina owners need to understand that zoning, flood zones, building restrictions

and



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STATE OF THE MARINA INVESTMENT MARKET

Predictions for 2019

Looking at how well 2018 performed, coming off of an excellent 2017, we maintain our optimistic outlook on the growth of several segments throughout the industry. The supply of new marinas is very limited due to permitting, zoning, lack of available un-tide restricted sites, strong opposition from environmentalists, large capital investment, etc. In addition, the development market is very strong for residential housing in major metropolitan areas, which is when we see prime marina sites being bought by condo and town house developers, effectively taking supply out of the market.

The supply/demand imbalance helps fuel higher physical occupancies for wet slips and dry racks (which we noticed an increase of in 2018), as well as supports increased wet slip rates to ensure that marina owners are maximizing dockage/storage revenues. Occupancy should continue to grow off of a strong 2018; according to Marina Dock Age, "Last year the number of facilities reporting increased occupancy rates, dropped by almost 8%. This year that drop was matched by a 14% increase, the highest number since 2009. The number of facilities reporting decreased occupancy rates has been steadily decreasing since 2011. About one-quarter of facilities remain at a steady occupancy rate."

We see the current trend of marinas upgrading their facilities after years of deferred cap-ex continuing in 2019, 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 NOIs, they can obtain relatively inexpensive loans, and newer amenities/services (as well as curb appeal) help attract new boaters and justify higher rates for the level of service they provide their guests.

Reinvestment into marinas around the country is an ongoing effort by major marina owners with large-scale facilities, as well as smaller marinas that serve a unique local customer base. Depending on location, we see marinas continuing to redevelop and rebrand as "destination marinas", with large capital projects including: 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.

Summary

We are fortunate to work with so many marina owners around the country, reciprocating knowledge and insights from each perspective. We like to take a 30,000ft. Approach to understand how the macro environment, relative to individual market factors, affect marina owners and the accompanying segments that make up the entire marine industry. Therefore, we looked at the interest rate concerns, how the stock market performed in 2018 and why that is important to our industry, as well as overall trends of marinas around the country. So why are we still optimistic about 2019?

To start: 1) good job growth (about 2.5 million new jobs a year); 2) well-maintained supply of new construction for housing, office, apartments and marinas; 3) most core commercial real estate product types have compressed yields between 4.5-6%, while marina yields are generally higher; and 4) we are not over-leveraged in real estate like we saw in 2007. We don't think 2019 will be the recession people are predicting because of the lack of both overbuilding and over-leveraging that took place prior to 2006. The positive effects of tax reform have not even reached the commercial real estate market yet, it takes a cycle of one to two tax returns to make a difference in investing. Our 2019 prediction is predicated on:

- ◆ A US stock market that 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 nine years
- ◆ Marina occupancies are high
- ◆ New boat sales are up
- ◆ We have had increases in rental rates which will drive EBITDA higher
- ◆ The major tax reform of last year will put more money into commercial real estate but has not really kicked in to affect real estate just yet
- ◆ Commercial real estate yields are so compressed, investors looking for yield will start to look at marina opportunities

For the marina industry right now, the future looks bright.

BUYER SENTIMENT – MARINA INVESTMENTS REMAIN A FAVORED ASSET CLASS IN 2018

By Terence Vanek ♦ Terence.Vanek@MarcusMillichap.com

The Macro Picture

Marina industry performance closely follows that of the US macroeconomic performance. As such, the current economic expansion cycle, buoyed by strong fundamentals, has fueled healthy revenue growth and greater profit margins across the airspace. However, stock market volatility towards the end of 2018, coupled with fears of an inflated yield curve, have many investors on alert for a possible advancing recession.

Despite those fears, with healthy real estate fundamentals, tax reform underway, low interest rates, a fragmented airspace, continued economic growth, and billions of dollars in investment capital slowly being repatriated, the marina investment market continued to be on stable ground throughout 2018.



More of the Same

"New players and cross-over buyers continued to enter the marina market chasing yield, including new investment class capital looking to move out of an overbought stock market."

As was the case in 2017, consolidation stimulated big moves in the industry. New players and cross-over buyers (those investors that own other commercial real estate classes) continued to enter the market chasing yield, including new investment class capital looking to move out of an overbought stock market. Mergers and portfolio transactions kept pace, with heavy capital influxes to specific regions of the U.S., and numerous redevelopments for larger facilities, destination facilities, and dry storage options. Despite and possibly because of the year-end stock market volatility, capital continues to pour in to the marina airspace.

As referenced in our State of the Marina Investment Market, major marina owners with great locations continue to add value, upgrading docks, adding restaurants, boutique hotels, rental boats, and other amenities/activities that today's boaters want. This "destination" is especially prevalent among the institution players, looking to differentiate their brand with an experience rather than simply storage.

So, Who Is Buying?

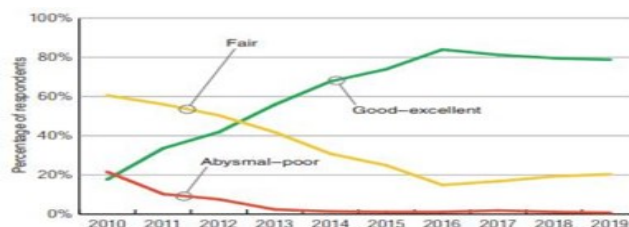
Institutional class investors are the major movers and shakers in terms of headlines. In the \$10M+ airspace, they continue to make splashes with large portfolio transactions coupled with announcements for significant capital improvements post-acquisition. There has been a lot of activity in the southeast, and most look to acquire and invest for value add, rather than sit on current yield. Many look to create a destination site and attract boaters not just for storage, but a lifestyle that provides several

different on-site amenities, access to local restaurants, beaches, nightlife, and reciprocity amongst the brand.

Smaller transactions generally classify with either first-time buyers looking to create a lifestyle for themselves, or regional groups with a geographic strategy to create cost efficiencies and local recognition. They often prioritize yield over value-add, safety over risk. They grow logically, rather than aggressively. Despite media's attention towards big-ticket acquisitions, more than 90% of marina operators have only one location, with the four largest companies accounting for less than 10% of industry revenue (IBISWorld).

The Valuations

Valuations, apart from cash flow, prioritize wet slip and dry rack revenue above all else. Coastal marinas are favored more than lakefront marinas, with a preference for leased restaurant and retail space over those profit centers being run in-house. Boat sales and boat service departments are valued on a case-by-case basis, as these centers are more volatile, pose a higher risk, and performance is ultimately based on the marina's immediate market and customer base.



Based on these parameters, deal-flow has provided a cap rate range between 7% - 14% through 2018. Institutional class investors generally acquire marinas in the 7% - 10% range, focusing more on large-scale operations with high slip/rack counts that are near major metro areas. Smaller transactions often trade in the higher 10% - 14% range, with lower storage revenue and a more diverse business mix.

Profitable deals where sellers are seeking a 7% cap rate (14X EBITDA) still need to show substantial upside to trade at that price. Still though, a 7% cap by many sophisticated investors is widely regarded as overpriced. But for cross-over buyers from the multi-family sector, for example, may view a 7% cap as a great opportunity compared to a stabilized, Class-A apartment product that is trading at sub-5% cap rates (more than 20X EBITDA). Hence the migration of capital chasing higher returns.

Many factors affect the cap rates discussed above.... Is the submerged or uplands land leased or fee simple? How many capital expenditures are left post-acquisition? Is it salt or fresh water? What amenities are included? What is the quality of the income (storage vs. service, restaurant, boat sales) etc.

MARINA FINANCING IN TODAY'S ENVIRONMENT

By Kody Tibbetts ♦ Kody.Tibbetts@MarcusMillichap.com

Marina Financing

As is the case with many specialty property types, obtaining financing is not quite as easy as it is for other core commercial properties who can turn to major banks as a source for lending, but it doesn't mean loans are not available for marinas. In fact, the loan market for marinas is much more active than it has been in the past and many lenders are looking at specialty property types to diversify their portfolio.

The most typical loan sources for marinas are SBA, regional banks, local banks and credit unions. When it comes to lending criteria, we typically see loans being made on properties that possess three main traits: 1. Cash Flow is king and the ability to service debt is paramount, 2. Location, most prefer coastal and year-round over lakes and seasonal, 3. Quality of the property and the different income streams. It is imperative that borrowers provide clarity on the actual profitability of the business. We often see situations where the income to the marina is diluted by personal expenses which could result in either worse terms or putting entire loan at risk. Furthermore, if the buyer has experience in the marina space, they can often get better terms on the loan. The more experience the buyer has the more leverage.

Sample Marina Financing Terms

Loan Amount: Typically: Minimum \$1.5M (As low as \$250K for SBA)

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

Amortization: 15 - 30-year terms

Interest Rates: 5 - 8% Fixed (Higher Int Rate on SBA), 5.5% Floating (Competitive rates based on risk profile and loan size)

Loan to Value: 60 - 70% of Appraised Value for Conventional, 85 - 90% for SBA.

Debt Yield: 1.30 - 1.70

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.

Overall, marinas are profitable and occupancies are high with the help of strong economic growth fueled by lower taxes, increased spending, reduced regulations, low unemployment and higher consumer confidence. With a few more rate hikes expected to occur in 2019, specialty assets such as marinas may have a tougher time getting financing. Current owners may want to consider now to be a good opportunity to refinance and try to lock in a lower rate.



Partial List of Major Marina Lenders

- ♦ Sunwest Bank
- ♦ CREFCOA
- ♦ Halo Capital
- ♦ Ocean Pacific Capital
- ♦ Leisure Financial Group
- ♦ Kala Lending
- ♦ Northeast Bank
- ♦ 1st Coast Commercial Capital

FISCAL YEAR 2018 SALES ACTIVITY—THE \$1-\$10M TRANCHE

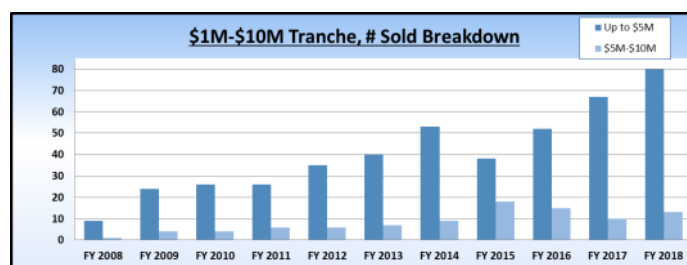
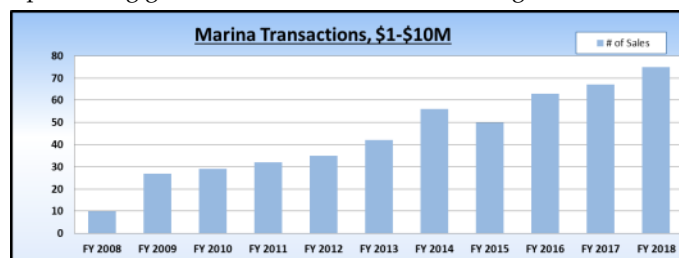
By Brett Murphy ♦ Brett.Murphy@MarcusMillichap.com

FY 2018 In Review

The Leisure Investment Properties Group strives to provide the most accurate data to investors regarding sales activity and overall sentiment of marina investments throughout the United States. The focus of this article is sales data collected from Q4 2017-Q3 2018, to account for the lag time in the reporting of marina transactions that occur in Q4 each year. Compared to last year's report, sales volume has increased for FY 2018 which we can attribute to a number of factors discussed throughout this investment report, in particular: 1) owners are capitalizing on the great economy; 2) there is a strong overall marina investor sentiment; and 3) exceptional boat sales data that fuels marina growth.

The most notable improvement we found through our research is a 20% increase in overall transaction volume for 118 marina sales in FY 2018, up from a total of 99 transactions recorded in FY 2017. "Overall" denotes the entire record of sales in FY 2018, including transactions between \$500k and \$30M (excluding portfolios, marinas with larger retail/office portions, and other sales that do not accurately represent a singular marina transaction).

Most of these transactions, however, occurred in the \$1-\$10M range (64%) – otherwise known as the "core" investment tranche. This percentage is just about where sales were in FY 2017 (68%), which is optimistic because FY 2018 accounts for 20% more transactions. Meaning, with more sales we are still experiencing greater volume in the \$1-\$10M range.



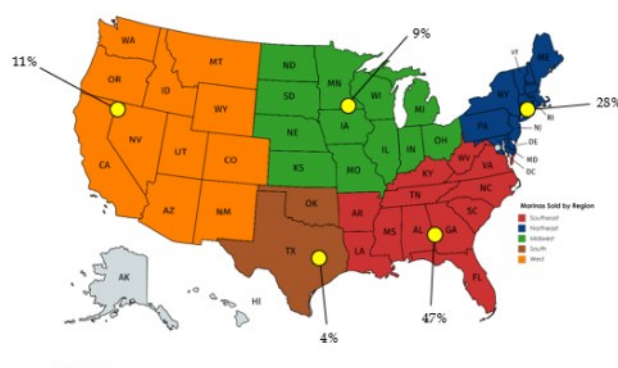
This "sweet spot" for marinas is where we will shift focus, as most investors tend to target marinas under \$10M, compared to larger, institutional operators that look for marinas of scale. It is in this core investment tranche where the private client investor seeks marina opportunities, just as smaller, regional operators do to expand their portfolios. Therefore, it is important to understand how this tranche has trended over the last 3-5 years.

Transaction Volume, Averages, and Median Sales Price

First, we noticed an increase in transactional volume from 67 sales in FY 2017 to 75 sales in FY 2018 (an 11.94% increase). We then determined that the average sales price from FY 2017 increased 15.65% to \$3,335,352 (from \$2,883,928). This is positive news coming off of a near 23% decline in the \$500k-\$30M range in FY 2017, implying that the majority of sales taking place under \$10M are achieving higher valuations this fiscal year, and at a greater frequency than last. Lastly, the median sales price of this "core" investment tranche experienced a 28.76% increase to \$3,000,000 in FY 2018 – a strong indicator and supporter of the growth we are seeing and that the data is suggesting. Ultimately, when the deal makes sense and it is priced appropriately, sellers are still achieving high valuations, even in a rising interest rate environment.

We also determined that 83% of the sales in this tranche were between \$1-\$5M (62 sales), consistent with 85% in FY 2017. Although it is ominous to look at the \$500k-\$30M averages and conclude a trend of declined average sales price, we evaluate how much of that data is being skewed by larger and smaller sales outside of the core investment tranche. These "outlier" sales typically consist of a few sales at the higher end of the price range, as well as a greater frequency of sales on the lower end of the price scale. Based on these statistics, we can infer that the greater volume in marina sales below \$1M is one of the driving factors to the decline in "overall" average sales price.

The region is important to understand where investor sentiment lies and where the majority of capital is directed. In FY 2018, the majority of sales fell in the Southeast (47%), compared to FY 2017 where the Southeast and Northeast were about tied at 34%. The majority of the Southeast benefits from year-round boating, destination locations, and high levels of transient boaters.



As mentioned in the "Investor Sentiment" section, we believe this trend will continue by larger operators and smaller, private-client investors who are looking for profitable and reliable, year-round facilities. Although boat sales are expected to perform very well in 2019 and unemployment is expected to maintain current levels (3.7%), we should stay cognizant of the rising interest rate environment we are in.

LIST OF EXCLUSIVE LISTINGS NOW AVAILABLE

**LISTED!****WHITEHOUSE COVE MARINA**

A Premier Virginia Marina & Surf Rider Restaurant
Poquoson, Virginia | \$3,795,000

Lead Agent: Brett Murphy | 813-387-4822

**JUST LISTED!****FALL CREEK MARINA & CAMPGROUND**

Premier Tennessee Marina & Campground
Russellville, Tennessee | \$2,700,000

Lead Agents: Brett Murphy 813-387-4822 | Jeffrey Spilman 813-387-4745

**LISTED!****OUTER BANKS MARINA**

Premier Dry Stack & Fishing Yacht Marina
Wanchese, North Carolina | \$3,500,000

Lead Agent: Brett Murphy | 813-387-4822

**LISTED!****CONFIDENTIAL PREMIER DRY STACK MARINA**

New England

Lead Agent: Steven M. Ekovich | 813-387-4791

**CONFIDENTIAL NEW JERSEY MARINA**

Lead Agents: Jeff Spilman | 813-387-4745
Brett Murphy | 813-387-4822

**SOLD!****LADY'S ISLAND MARINA**

Marina, Restaurant, & Waterfront Offices

Beaufort, South Carolina

RECENT SALES

Marina Name	Sale Price	Month	Market	State
LaPrade's Marina	\$ 3,700,000	October	Clarkesville	GA
The Sailing Emporium	\$ 3,800,000	December	Rock Hall	MD
Doctor's Lake Marina	\$ 3,900,000	January	Orange Park	FL
Zahniser's Yachting Center	\$ 4,000,000	April	Solomons	MD
Cookson Bend Resort & Marina	\$ 4,000,000	April	Cookson	OK
Bay Point Marina	\$ 4,000,000	August	Norfolk	VA
Southpointe Mall & Marina	\$ 4,250,000	May	Sarasota	FL
St. Augustine Marine Center	\$ 4,300,000	February	St. Augustine	FL
Freedom Marine Center	\$ 4,304,500	March	Deerfield Beach	FL
Seahorse Marina	\$ 4,500,000	November	Port Charlotte	FL
Tappan Zee Marina	\$ 4,500,000	March	Piermont	NY
Hilton Head Harbor RV Resort & Marina	\$ 4,600,000	December	Hilton Head Island	SC
Anchors Aweigh Marina	\$ 4,669,529	May	Fort Pierce	FL
Shell Point Marina	\$ 4,675,000	September	Ruskin	FL
Hidden Harbor Marina	\$ 4,700,000	February	St. Augustine	FL
The Harbor at Lemon Bay	\$ 4,850,000	February	Englewood	FL
Holiday Isles Marina	\$ 5,700,000	July	Madeira Beach	FL
Marathon Boat Yard	\$ 5,750,000	July	Marathon	FL
Gulf Shores Marina	\$ 5,900,000	August	Naples	FL
Gallatin Marina	\$ 6,200,000	October	Gallatin	TN
Vinings Landing Marina	\$ 6,250,000	May	Norfolk	VA
Garrison Bight Marina	\$ 6,300,000	October	Key West	FL
Taylor Creek Marina	\$ 6,330,471	May	Fort Pierce	FL
Amelia Island Marina	\$ 6,335,000	August	Fernandina Beach	FL
Bay Pointe Marina	\$ 6,398,691	August	Quincy	MA
Surfside Marina	\$ 7,500,000	January	Surfside Beach	TX
Bay Marine & East Beach Marina	\$ 7,600,000	June	Norfolk	VA
Port-O-Call Marina	\$ 8,000,000	March	Naples	FL
Clearwater Basin Marina	\$ 8,125,000	May	Clearwater	FL
Zeke's Landing Marina	\$ 10,000,000	February	Orange Beach	AL
Union Dry Dock	\$ 11,500,000	November	Hoboken	NJ
Salmon Bay Marina	\$ 15,679,120	June	Seattle	WA
Tampa Harbour Marina (Port 32 Tampa)	\$ 21,500,000	August	Tampa	FL
County Mega-Yacht Repair Facility	\$ 22,000,000	January	Fort Pierce	FL
Baltimore Marine Center at Lighthouse Point Marina	\$ 22,500,000	October	Baltimore	MD
A&B Marina (Mutli-Use Portfolio Sale)	\$ 23,660,000	September	Key West	FL
Project Maple Leaf	\$ 34,000,000	December	Canada	Canada



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STEVEN M. EKOVICH

National Managing Director / First Vice President of Investments
Steven.Ekovich@MarcusMillichap.com

KODY TIBBETTS

Financial Analyst | Kody.Tibbets@MarcusMillichap.com

TERENCE M. VANEK

Junior Partner / Senior Investment Advisor / Senior Editor
Terence.Vanek@MarcusMillichap.com

JEFFREY SPILMAN

Investment Advisor | Jeff.Spilman@MarcusMillichap.com

CHRISTOPHER R. KARAMITSOS, PGA

Senior Investment Advisor
Christopher.Karamitsos@MarcusMillichap.com

BRETT MURPHY

Investment Advisor | Brett.Murphy@MarcusMillichap.com