2023

MARINA INVESTMENT REPORT

LIPG

LEISURE INVESTMENT PROPERTIES GROUP

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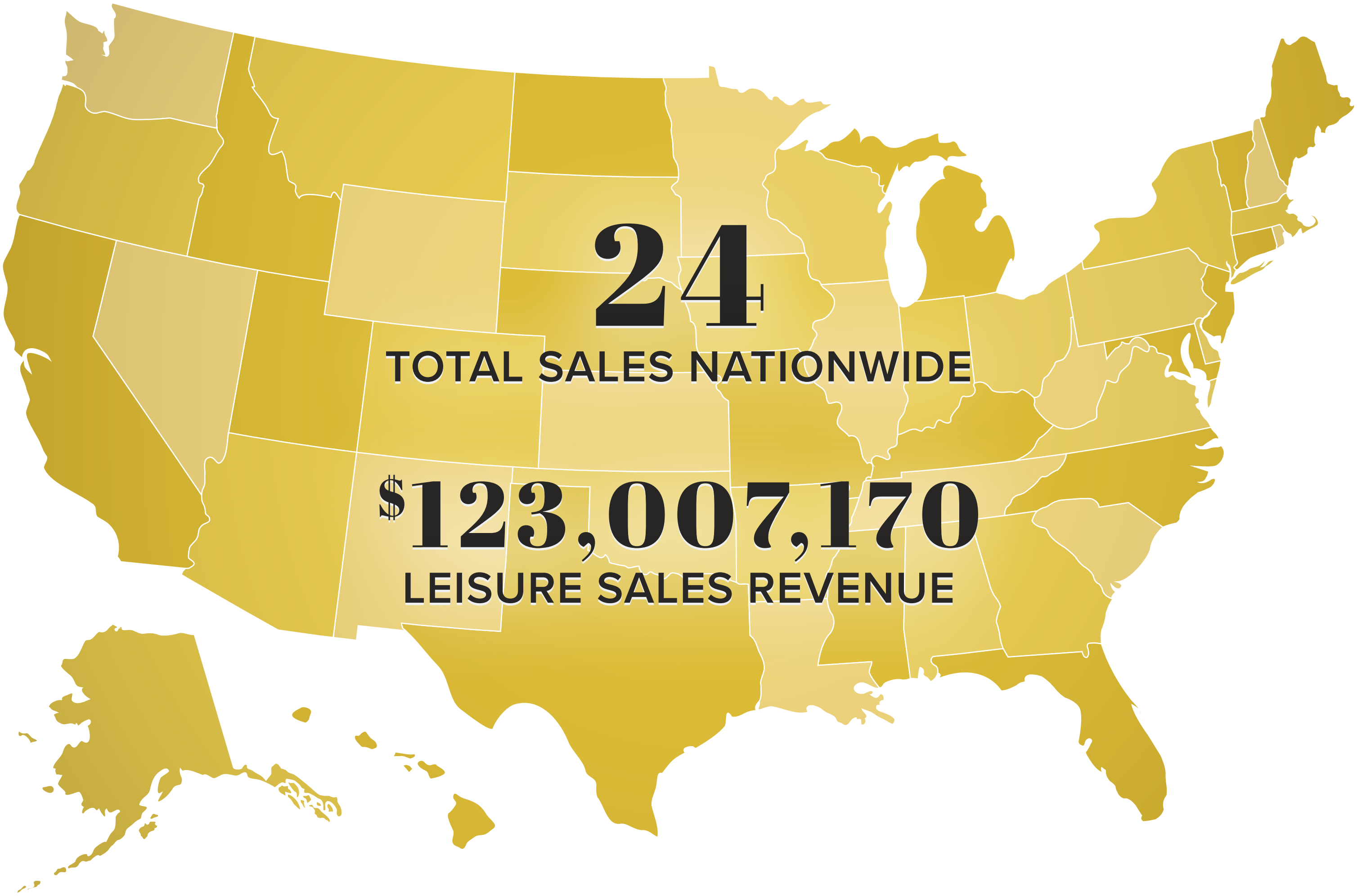
2022 YEAR IN REVIEW



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Vision

To be the preeminent leader in business-driven leisure investment real estate and advisory services.

Mission

To help our clients create and preserve wealth. We deliver exceptional transactional expertise, superior market knowledge, and the industry's most powerful marketing platform at a personal level, treating each client's best interests as our own.

Guarantee

Our clients will have the clarity, knowledge, and power to make sound business decisions that will maximize their investment strategies and achieve their vision for the future.

A TRUSTED VISION FOR THE FUTURE OF MARINA INVESTMENTS

The Leisure Investment Properties Group (LIPG) was founded in 2009. Formerly known as the National Golf & Resort Properties Group, LIPG has become the recognized industry leader in marina and golf course sales nationwide.

The firm provides brokerage and advisory services exclusively to the leisure investment industry which includes marinas, golf courses, master-planned communities, RV Communities, resorts, and other leisure properties. Since its inception, the LIPG has sold more than 185 properties by utilizing its proprietary network of investors, powerful platform, and proactive marketing techniques. The management team has more than 150 years of combined experience brokering marinas, golf courses, master-planned communities, and other commercial real estate assets.

INSIDE THIS ISSUE

Editor-in-Chief
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EXECUTIVE SUMMARY

This report, used by many marina industry owners, lenders, appraisers, management companies, consultants, and media outlets, is usually released in March, to provide the best sales statistics since pre-reporting agencies are usually 2 – 3 months behind in the reporting of marina sales. We will cover what happened to marina retrospectively in 2022 and look forward to what we believe will happen in 2023.

KEY 2022 MARINA MARKET TAKEAWAYS:

Marina Occupancy Levels:	↑	Boat Sales:	↓
# of Marina Transactions:	↓	Marina Supply:	↓
Average Marina Sale Price:	↓	Stock Market:	↓
Median Marina Sale Price:	↓	Interest Rates:	↑

The most predominant investment metrics in commercial real estate are the capitalization rate and internal rate of return (IRR). Looking back at 2022, there is another "formula" that relates to marina investments and what it means for the future: that is IISD = R (or, how interest rates, inflation and supply chain disruptions combine into recession probability). This year's report will examine the parts of this "sum" (recession probability) and relate it to current trends and sentiment for an outlook through 2023.

A few positives noted in 2022 were continued strength in occupancy rates and marina profit growth. Many owners continued increasing rates throughout their business, whether that was in storage (wet slips/dry racks), boat repairs, fuel sales, or another profit center. New boat sales, however, started to cool in the second half of the year, and overall recorded marina transactions declined from 2021. The former was a matter of time, and the latter was expected as the Fed started an aggressive Quantitative Tightening agenda the resulted in a 400+ basis point increase to the Fed Funds Rate. Investors hit the pause button in Q3 and Q4 as they assessed their own financial situations, and we continue to see a decent spread in the "bid-ask" for many marinas.

Marina fundamentals are still strong at the time of this writing, however, and a few key factors to continue monitoring in 2023 are boat sales, boat ownership turnover, boater retention, the debt market (marina financing), and price adjustments.

We look forward to working together in the future.

Sincerely,

Steven Ekovich | Executive Managing Director – Partner

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Marina State of The Market: 2022 Wrap-up and 2023 Forecast

THE ECONOMY AND MARINAS

The economy is moving into a lower gear, following a historic post-pandemic recovery and expansion. The return of consumer and business demand was uneven, contributing to elevated inflation in 2022 that lingers into 2023. Marina owners are having to adjust to higher prices across nearly every category, such as: wages, fuel costs, parts, ship's store items, insurance, and more. A potential pullback in personal spending and corporate investment would dampen GDP growth in 2023, which seems inevitable. With credit card limits at an all-time high, that could hinder discretionary spending on luxuries like boating (and, therefore, impact marina income). Regarding marina investment, a narrowing spread between debt costs and marina cap rates could lead to a greater disconnect than already exists between buyers and sellers. Yet, fundamentals are strong and support the operation, even amidst a few macroeconomic shifts that sellers and investors should factor in when deciding to buy and sell.

> *Marina owners are having to adjust to higher prices across nearly every category, wages, fuel, parts, ship's store, insurance, food, you name it.*

In March 2022, the Fed started Quantitate Tightening with their first 25 basis point increase to the Fed funds rate. Shortly thereafter, four consecutive 75 basis points increases were introduced, aggressively shocking the market, and quickly changing the investment landscape. Even as marina revenues and net operating income (NOI) across the country were higher year-over-year (which should have supported higher valuations), the 400+ bps increase in interest rates throughout 2022 had a cooling effect on values due to eroding cash flows.

This ultimately slowed investment activity as buyers evaluated their financial positions, which impacted marina price points as the "bid-ask" spread widened. In short, we are no longer in the 2020/2021 "era" of pricing, as the cost of debt is more expensive, and less cash flow remains on existing NOI after the debt is paid.

FOR COMPARISON, AS IT RELATES TO LENDING:

In January of 2021, the prime rate was 3.25% and with a 2.5% margin, marina investors could expect an interest rate around 5-6%. Fast forward to Q1 2023, the prime rate is around 7.75-8%, making a resulting rate with a 2.5% margin around 10.25% (negative leverage for marinas priced at cap rates less than 10.25%).

While certain loan programs are in the 10-12% range, an investor in Q1 2023 could expect to find interest rates around 6.5-7.5%. This is a material shift compared to the rates that could be obtained in 2020 and 2021, and it is a shift that will continue to be reflected in offer prices as more EBITDA/NOI is required to service debt. Not only does higher debt service erode cash flow (i.e. investor return), but it reduces the Loan-to-Value (LTV) and overall purchase price the market can bear. There are numerous cash buyers still in the market, but they are sensitive to interest rate pressures as well and how the Fed's policy impacts their capital stack.

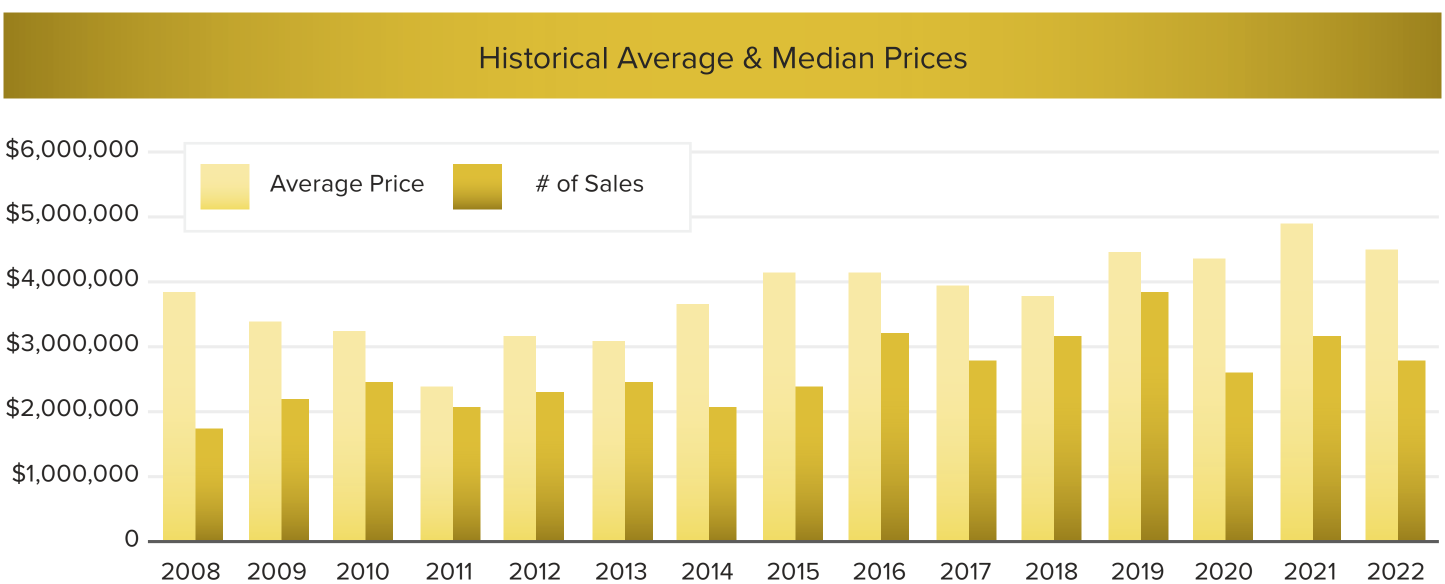
THE DEMAND SIDE

Marinas recorded the highest occupancies ever in 2020 and 2021, and this was a continued point of strength for marinas in 2022. The primary drivers were:

1. Limited supply of marinas
2. Increased demand for those slips/racks
3. The excitement of owning a boat driven by impulsive buys at boat shows.
4. Inability to store the boat elsewhere.

Boat sales have slowed to a pre-pandemic level since the second half of 2022. Yet, there is a significantly higher number of boaters today than pre-pandemic, and the overall age of boaters has shifted towards younger generations.

Rate growth has benefited from full occupancies and extensive wait lists - demand indicators that are still strong through Q1 2023, and which we expect to remain strong through the year. Some locations have vacancies due to property-specific



* Data courtesy of the Leisure Investment Properties Group based on available information and recorded data.

**Data may not represent a complete list of sales if transactions were not reported or recorded.

*** Portfolio sales and outliers excluded.

Fig 1

LIPG National Marina Sales Data | $1M - $20M Transactions					
	# of Sales	Average Price	% Change	Median Price	% Change
2008	26	$ 3,802,115	N/A	$ 1,725,000	N/A
2009	27	$ 3,384,343	-10.99%	$ 2,200,000	27.54%
2010	27	$ 3,215,593	-4.99%	$ 2,450,000	11.36%
2011	30	$ 2,363,473	-26.50%	$ 2,057,500	-16.02%
2012	33	$ 3,161,939	33.78%	$ 2,325,000	13.00%
2013	47	$ 3,059,931	-3.23%	$ 2,450,000	5.38%
2014	51	$ 3,613,645	18.10%	$ 2,060,000	-15.92%
2015	50	$ 4,124,388	14.13%	$ 2,350,000	14.08%
2016	79	$ 4,122,167	-0.05%	$ 3,200,000	36.17%
2017	74	$ 3,911,365	-5.11%	$ 2,750,000	-14.06%
2018	83	$ 3,755,189	-3.99%	$ 3,150,000	14.55%
2019	87	$ 4,447,740	18.44%	$ 3,800,000	20.63%
2020	81	$ 4,328,758	-2.68%	$ 2,600,000	-31.58%
2021	142	$ 4,873,758	12.60%	$ 3,160,000	21.54%
2022	129	$ 4,468,685	-8.31%	$ 2,750,000	-12.97%
Total	966				

Fig 2

issues (dredging, deferred maintenance, lack of amenities), while others are organically vacant because of a tertiary market.

We continue to see marinas in suburban and rural markets benefit from net migration out of major metropolitan areas to the Southeast, a shift that was initially driven by the COVID-19 pandemic and the ability to work remotely (a trend we noted in earlier reports). This is largely a shift of new second-home and lifestyle-change buyers, as most of the sought after locations are on or near lakes and attractive coastal markets. Other trends include redevelopment and re-purposing opportunities, which are either new to the property or complementary to the existing business.

THE SUPPLY SIDE

According to IBISWorld, there are approximately 10,445 marinas in use in the United States. This inventory is not materially increasing like we see with self-storage facilities and car washes, but there are new projects coming online with decent consistency. The permitting/approval process can be lengthy and costly, but when planned correctly,

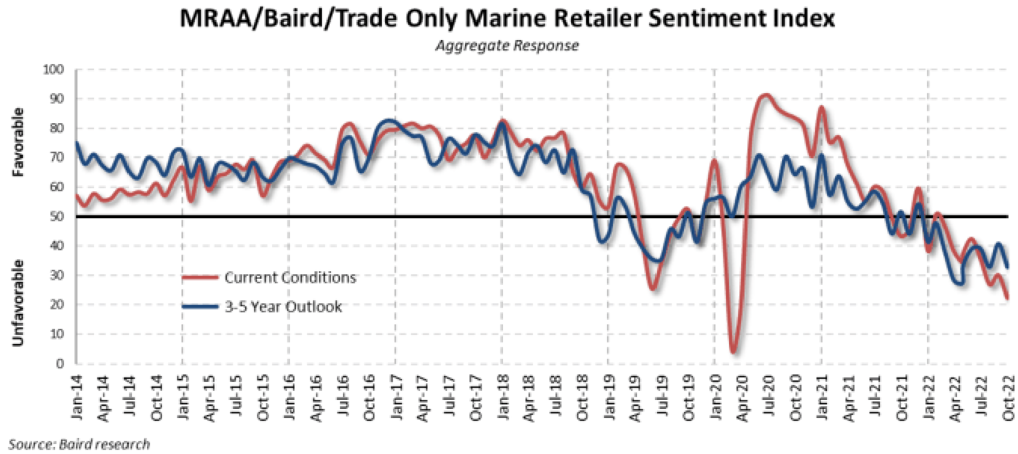


Fig 3

these developments can make for an excellent investment and become an economic driver for the area.

Expansions are a common value-add component we see, as mentioned above. These can be opportunities that create additional capacity for a marina, introduce new amenities or services, or create a mixed-use component that has synergies with the existing marina. Different from curing deferred maintenance (repairing bulkhead, fixing parking lot, fixing boat ramp), these opportunities provide an economic return and typically increase the storage capacity of the marina – the core profit center of the asset class.

Ultimately, the "supply" takeaway is that marinas are not like other commercial real estate which can be easily developed with the right site, proper zoning and capital. There are expansions opportunities, but there are still barriers to entry for new marinas. This can be an advantage or disadvantage depending on who you ask (marina owner, boat owner, investor, government, etc.), but marina valuations are positively impacted by limited supply (and a low probability of new supply), since demand and rate growth for existing storage space is high. On the other hand, low-demand locations with ample supply are more prone to vacancies – not necessarily due to property-specific causes, but a factor of the location and boating market. We carefully assess those factors with each asset our team works on because there are always opportunities to improve operations, if not completely re-purpose the site for another new, or complementary, use.

INVESTMENT ACTIVITY

Marina sales data is dynamic as new sales

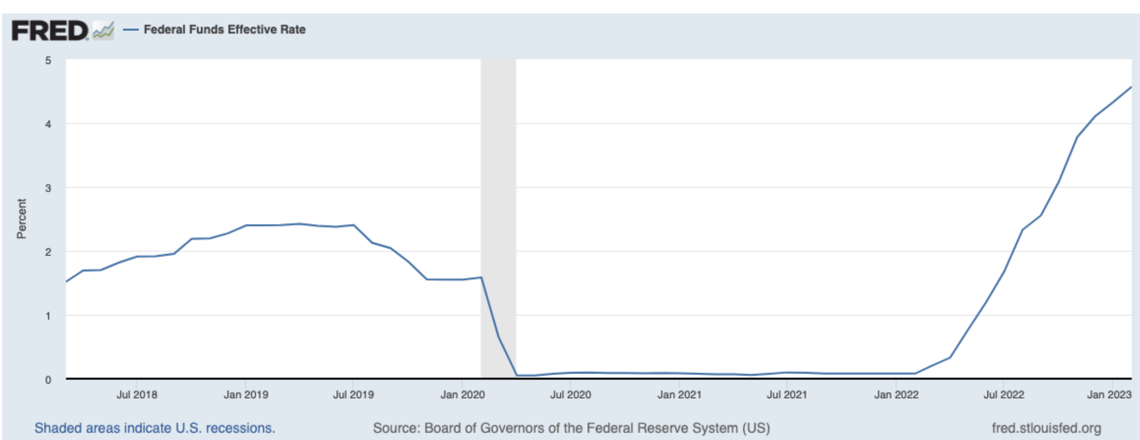


Fig 4

become public, are recorded, or identified with a price. Based on the most current, available data recorded for 2022 sales, transaction volume and average sale price have declined from 2021. The median price is virtually unchanged (~$3.1M), while total recorded sales between $1-20M declined from 142 in 2021, to 129 in 2022. The median price is considered a better statistical measure of trending value because the average is easily influenced when a large quantity of small or large sales exists in the data set. Further analysis of the Intermediate Subset ($1-10M range) provides insights into where marinas traded in 2022, and the result points to the higher range with fewer overall sales.

NATURAL DISASTERS

Natural disasters, whether a hurricane, tornado, microburst, or fire, have devastating effects on the marina industry. Florida's West coast, specifically Ft. Myers, Cape Coral and surrounding areas suffered catastrophic damage due to Hurricane Ian in September 2022. Property damages are estimated around $70B+ , thousands of boats were destroyed or damaged, and a few dozen marinas took on varying degrees of damage throughout this region and the rest of the storm's path.

What does this mean for marina owners? Aside from immediate cap-ex needs for repairs, insurance costs are going up (and have already taken effect). We have seen this shift have a negative effect on pricing, as the insurance expense will cut into NOI, similar to the effects of more expensive debt. The Florida marina market is exceptionally strong, and well-positioned to continue increasing storage rates which helps off-set this expense, but even marinas outside of Florida will feel the trickle-down effect as their own premiums begin to rise.

THE MAIN TAKEAWAYS FOR MARINA OWNERS ARE:

- Partner with an insurance agent that specializes in marinas. Connect with us to learn more about who we recommend.

- Make sure you are properly insured, including your docks - not just upland structures. This reduces the likelihood of a lower valuation when a buyer “adjusts” your NOI for this added expense.

- Stay ahead of deferred maintenance. The marinas that came out in the best shape post-storm had stronger infrastructure and were well-maintained.

- Make sure you have a plan in place. This includes hurricane preparedness for boaters, boats, employees, and property.

OUR MARKET FORECAST 2023

After looking at all the demand drivers, marina inventory levels, macroeconomic factors, transaction data and impact from natural disasters, we have a cautious, yet optimistic, outlook for 2023. We believe transactions will continue at a healthy pace as fundamentals remain strong. Sellers and buyers must be cognizant of the changing environment so appropriate expectations can be set:

- With financially healthy marinas, increasing occupancy, and strong support for increasing slip/rack rates, we believe the asset class remains a great alternative investment for both private clients and larger, institutional investment companies.

- We expect to see more owners continue holding their asset(s) when physically able (and desiring) to continue operating. Cash flows may stagnate in some areas, but the fundamentals are very strong around the country and lead to excellent income for owners.

- Prices are expected to cool as cap rates expand amidst further interest rate hikes and a tighter debt market.

- Consolidation is expected to continue by institutional investment companies, with excellent opportunities for stabilized and value-add marinas around the country.

- Boat sales are normalizing to pre-pandemics levels. 95% of boats sold in the U.S. are less than 26’ – a demographic more likely to finance the purchase, and therefore more sensitive to rising interest rates.

- Marina owners should focus on boater retention and introduce amenities and events that foster a stronger community. The goal should be to keep current boaters active at the marina. A few ideas are: boat rentals, boat club, education seminars, boat driving courses, paddleboard/kayak rentals, fishing trips, holiday events.

- Insurance rates are rising, and it is best to stay on top of how this expense may impact a marina’s value.

While there is uncertainty about the economy and several shifts to the investment landscape from 2021, we are looking forward to another great year for the marina business in 2023. As new data and information is presented, we will adjust accordingly on our end to help keep you informed on the state of the marina investment market. If you are interested in learning more about our marina advisory services, contact one of our advisors a the end of this report!

Boat Sales

Boat sales data is an important indicator of marine industry health, providing insights into consumer sentiment which can translate to demand at marinas down the line. The marine industry is turning the page on an exceptional ~24-30 months of boat buying demand as we face continued expectations of sales volume and pricing normalization throughout 2023. Buyer sentiment is expected to cool as well, which was first noted in late 2022 as the Fed was well into Quantitate Tightening, at a pace and level that severely disrupted the economy. We expect interest rates to continue to play an influential role in forcing "would-be" boat buyers to the sidelines until 1) price points normalize, and 2) household finances allow for the purchase to fit into the equation. Translation: prices may drop on new boats, but that does not exactly mean buyers will be rushing to purchase, which will only stagnate sales volume[1].

BOAT SALES ARE NORMALIZING

Whereas the year started off strong on the tailwinds of 2021, the second half of 2022 was noticeably negative with dealers around the country reporting weakening demand, growing inventory, and declining performance. New boat sales started showing signs of weaker performance compared to pre-pandemic years as early as Q3 2022. Estimates pin 2022 boat sales results at 15-18% lower than those years[2]. While 2020 and 2021 realized a severe supply/demand imbalance that favored dealers, with limited inventory (even reduced orders as manufacturers worked tirelessly to meet demand) and an explosion of new boat demand that pushed sale prices above sticker prices.

Fast forward to Q1 2023, the supply chain has normalized and showrooms have product. In fact, too much product that is staying on the floor for a longer period. The changing demand environment is in large part due to the combination of higher interest rates and inflation. Putting aside the 2022 rise in gas prices (which have subsided from the ~$5/gallon average felt by most Americans), interest rates impacted the largest boat-buying demographic (boats 26' and under range), much like demand slowed in residential real estate. This is not only the segment that comprises 95% of boats sold in the U.S., but it is also the segment where boats are more likely to be financed. Thus, higher interest rates make boat ownership more costly, and at a time where other day-to-day household expenditures have risen.

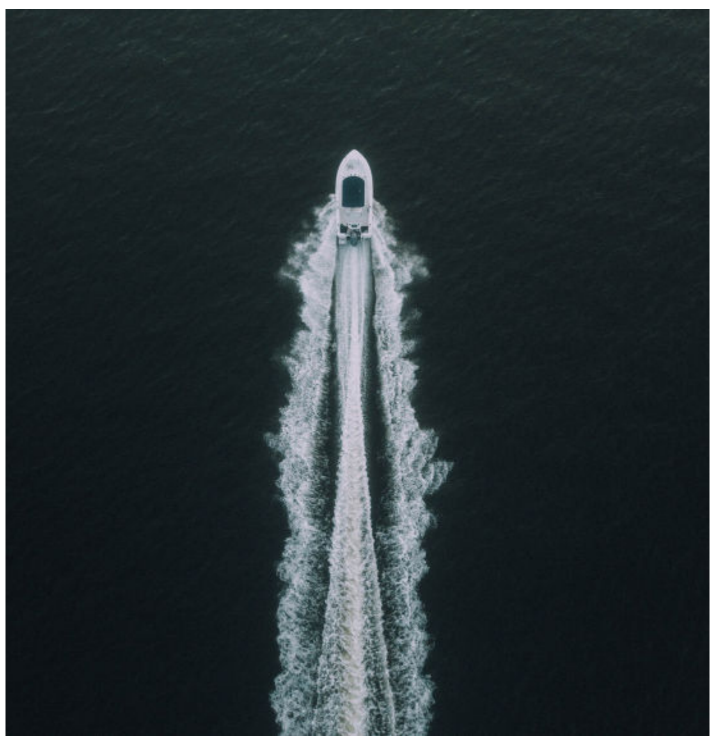
SHIFTING DEMOGRAPHIC

While headlining news is focused on gloomy projections, there are several positives that came out of the recent boom period that marinas can benefit from – primarily as it relates to their customer service and the marina experience for existing boaters, non-boaters and other marina guests. Millennials are reported to now comprise 31% of boat owners; Generation X leads at 37%, and Baby Boomers trail Millennials at 28%. These new owners are younger, and largely first-time boat owners with over 800,000 of which started their boating journey in 2020 and 2021 (entering years three and four of boat ownership). As the average boater shifts towards the younger generation, it is important to look at ways to engage this customer "pre-purchase" through rental boats, boat clubs and other marina-centric events/activities that make water recreation a prominent part of their life. Educational courses and experiential opportunities for non-boat owners to operate a vessel with appropriate guidance and safety measures are additional ways marina owners can pique the interest of "could-be" boaters, and eventually transition them to "will-be" boaters.

DEALER SENTIMENT

Dealers are equally important to the retention equation – they are the front line of boat sales success and the "go-to" for a boat owner's needs when they sold that owner the boat. Maintaining great relationships and providing excellent customer service cannot be neglected, especially when the economy may delay, if not prevent, consumers from purchasing boats in the coming months. The 2022 Annual Market Index by Boats Group quoted Mark Beeden, President of Trident Funding, in that "borrowers are feeling the elevated boat prices and rate increases, yet are looking to continue their adventures on the water, just in a more affordable way". This could be better through a dealer's strong financing relationships, a marina's rental boat fleet or boat club membership, or even through personal watercraft that introduce "would-be" boaters to the lake life, for example.

Further evaluating the dealer side of the new boat sales, Baird Research and the Marine Retailers Association of the Americas (MRAA) provide excellent resources that reflect current boat inventory levels and correlating dealer sentiment (See Fig. 1). Recent reports show that inventory was gauged as "too high" – that dealers have too many boats on the showroom floor. Compared to pandemic years, inventory was "too low", which most notable causes being the supply chain issues and competitive buyer demand. The boat show season kicks off each year in Q1, however, with shows such as Fort Myers, St. Petersburg, Naples, Houston, Miami and Palm Beach. This is



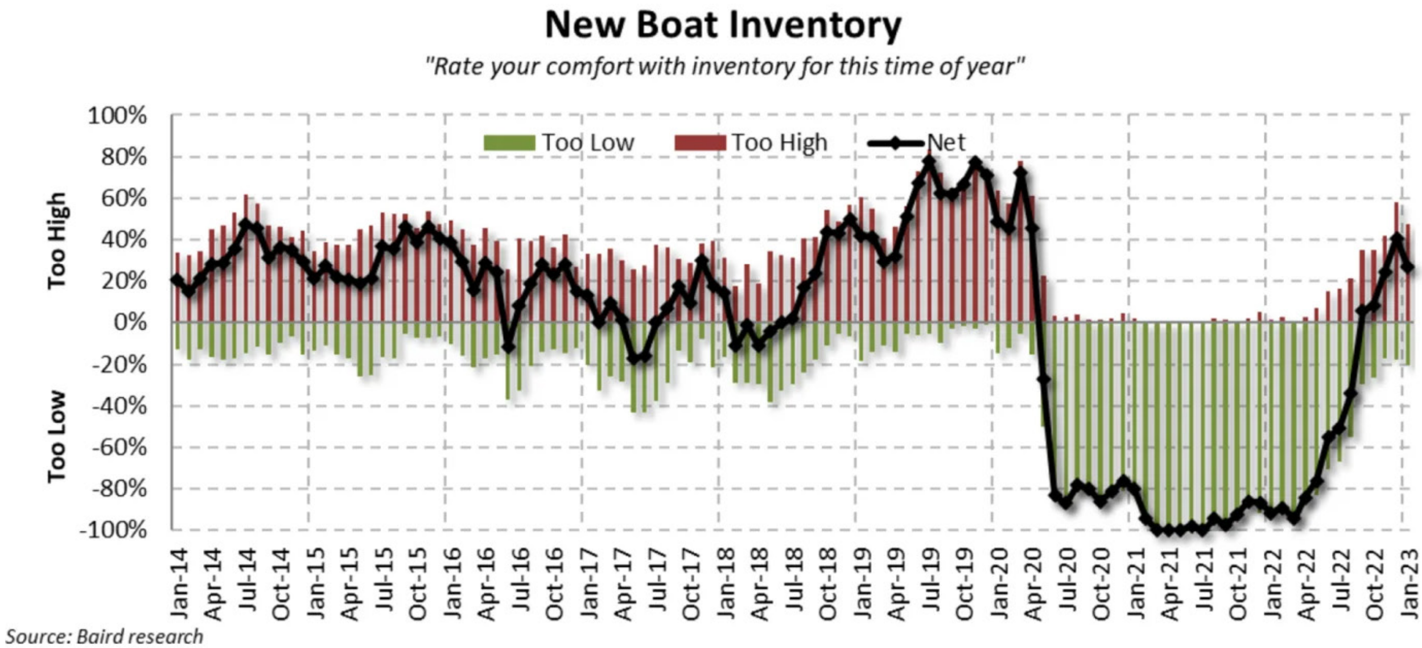


Fig. 1

one reason for inventory levels to be higher than normal in the winter months, as boat show sales must have product to deliver to customers. Data is still being collected from these shows and will be monitored throughout the year, to which we can learn more about how new boat demand is shaping up in 2023.

2023 OUTLOOK

As we continue to update our outlooks and adjust to new information throughout 2023, it is important to note that stalled boat buying activity is not entirely negative as it drives renewed focus and creativity for retaining existing customers and attracting "would-be" boaters as they seek access to the water. Marina owners can find great success with boat rentals, boat clubs, personal watercraft, boat sharing, charter fishing, and more. These are avenues for non-boaters to get on the water and experience the lifestyle in a cost-effective way that is also more immediate than boat ownership. While attracting new boaters to the space should always be an objective for dealers and marina owners, the leading theme of 2023 is undoubtedly retention and specific ways in which marinas and dealers can provide excellent customer service, reliability, and communication so boat owners want to stay involved. Macroeconomic factors are expected to limit new boat owner growth as "would-be" buyers focus on their household finances and other core areas of spending. Boat prices will also need to adjust, as prices elsewhere continue to normalize (marinas, real estate, cars, etc.).

As buyers sort through the various factors influencing their own purchase decision, 2023 can be another excellent year that capitalizes on boating interest in new ways that are not only profitable for marinas, but critical to developing the future purchase decision of the younger generation.

Footnotes:

1. Approximately 95% of boats sold in the U.S. are 26' in length or less – this is the boat buyer who is not only more likely to finance the boat purchase, but also trailer their boat if upkeep becomes too expensive but they desire to stay in the sport.
2. https://www.nmma.org/statistics/article/24208

Investment Trends

Commercial real estate is feeling the impact of rising interest rates, and marinas are no exception. Transaction activity declined in 2022 from the record-breaking levels set in 2021, setting an inflection point of sorts as marina valuations and investor acquisition criteria have had to adjust accordingly. At the forefront of this market shift is the new interest rate environment, which is here to stay, and likely to continue to grow through 2023. The debt market shift started impacting transactions in Q3 and Q4 2022, as many deals stalled to interest rate adjustments, forcing many investors to hit the pause button until the situation was better understood (See Intermediate Subset ($1-10M Tranche)).

INFLECTION POINT

Adjustments are still being made by sellers and buyers alike, but the positive is that capital and interest in marina assets are both still active. There may be more diligence and caution applied on the front end (deal-specific), but we expect to see continued demand for marina assets given that fundamentals remain strong going into the 2023 season. For instance, many owners are planning to raise rates this year[1]. Ultimately this bodes well for property cash flow and lessens the odds of widescale distress among marina assets. We expect pricing to continue adapting as the debt market shifts and investor acquisition criteria responds, since debt is almost always involved at some level in the $1-10M range, dictating buyer leverage, cost of debt, and ultimately the expected earnings from the investment.

While the Intermediate Subset of transactions ($1-10M range) is the primary indicator of investor sentiment based on the proportionate level of total annual sales in the price range, institutional capital has continued consolidating the marina space with dealership and marina acquisitions around the country. A few headline transactions at the institutional level in 2022 include:

1. Suntex-Westrec Merger ($400M).
2. MarineMax Acquisition of IGY Marinas ($480M+).
3. Brunswick Acquisition of Four Marinas & Freedom Boat Club Franchise in the Southeast.
4. Freedom Boat Club Acquisition of Tampa Bay Franchise (30 Locations).

Many of the new companies focused on consolidation have continued expanding their portfolios throughout 2022 as well, and we believe they will continue to find excellent opportunities in the marina space.

WHY HAS INVESTMENT ACTIVITY DECLINED?

Based on analysis from reported sales data and anecdotes from transaction experience, lower transaction volume in 2022 can be attributed to two primary macroeconomic factors: inflation and interest rates. We see this throughout the commercial real estate industry, with core asset classes like multifamily and retail recording declines in transaction volume. While capital and interest in the asset class remain healthy, the challenge to successful transactions will be achieving a meeting of the minds between seller and buyer.

One of the biggest challenges to real estate transactions across the board is the “bid-ask” spread. Adjustments have been made over the last few months as the rising cost of debt has taken effect, but pricing in 2023 is expected to continue adjusting downwards from 2020/2021 sentiment and metrics. Most marinas sell to individuals and partnerships, rather than institutions with large balance sheets. Based on 2022 data, 8 out of 10 marinas are likely to be acquired with financing – individuals whose household finances are also impacted by inflation and rising interest rates, let alone the debt market and the implications for marina financing.

ADJUSTING TO A NEW MARKET

As with any market, timing it perfectly is incredibly tough, and rather a feat of luck than knowledge. On the other hand, recognizing when we are in a new market can be apparent when evaluating real data and investor sentiment. For starters, the new interest rate environment is here to stay, and investors have (and will continue to) adjust their strategy and investment approach so new lending requirements and cash flow expectations are met. The cost of debt is now going to feel like a true cost, and this will impact marina valuations and subsequently successful transactions.

BUYER SENTIMENTS

Looking forward, we believe 2023 will be a pivotal year as the Fed continues fighting inflation, which is expected to bring further interest rates by year’s end. On one side of the buyer-seller adjustment equation, is that buyers are adjusting

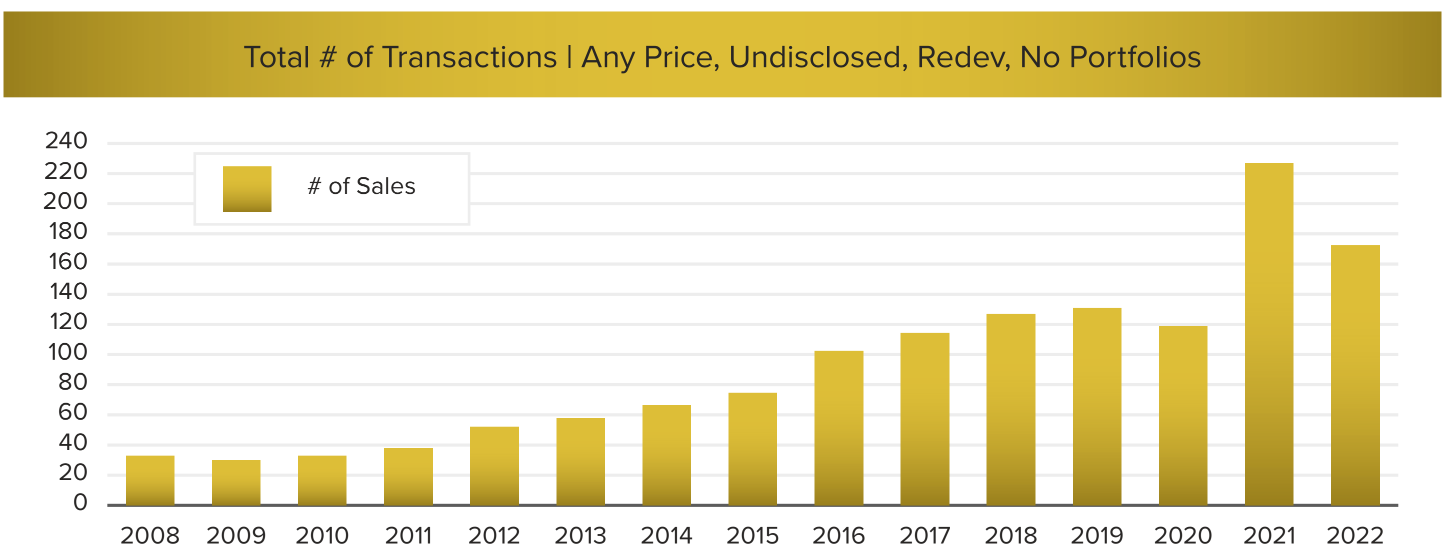


Fig. 1

"A good rule of thumb that we like to use is that every 1% rise in interest rates has a corresponding loss in value by approximately 7%-9%."

offer prices as debt markets tighten and erode cash flow. Simply put, pricing from 2020/2021 metrics does not make sense for investors as they have much less yield than they could have had when interest rates were 2x lower. A good rule of thumb that we like to use is that every 1% rise in interest rates has a corresponding loss in value by approximately 7%-9%. Debt service becomes more expensive to cover those payments each month. This is top of mind as investors evaluate marina opportunities today. That said, fundamentals are still strong, which does bode well for sellers.

As it pertains to sellers, on the other side of the equation, adjustments to marina values are expected. Fundamentals are strong, but cap rates had compressed significantly over the last two years, and negative leverage is a very real possibility for assets that are still priced aggressively, and unjustifiably. For example, transactions, where a private investor is seeking an SBA loan, could prove negative leverage since rates are being quoted over 10%. This makes many sub-10% cap rate deals a challenge for investors to obtain. We do not expect values to adjust based on this one loan program, but the principle remains top of mind as other traditional debt metrics need to be achieved by lenders: debt service coverage ratio (DSCR) and debt yield, primarily. Marina financing can be tough to obtain, and we expect lending terms, as well as general capital availability, to remain tight in 2023, further affecting a buyer's ability to purchase a marina.

As with all markets, there are ups and there are downs. Currently, we are in the adjustment period where 2020 and 2021 pricing is no longer achievable in most cases, as negative leverage will result, or very little cash flow is left after the debt is paid, based on the price point (which is likely guided by 2020/2021 pricing).

As noted last year, the marina asset class is an alternative investment that affords investors an escape from negative leverage (as experienced in multifamily in 2022), better yields (if not an escape from negative leverage experienced in other asset classes), portfolio diversification, and tax advantages.

Footnotes:

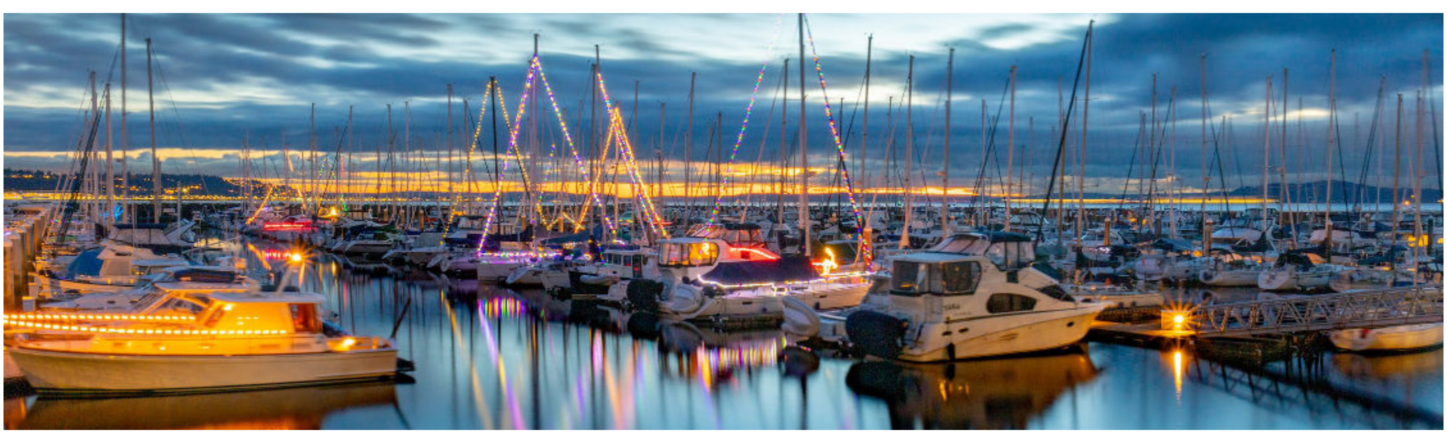
1. Based on survey of the LIPG network in February 2023.

Marina Sales Data: Intermediate Subset ($1-10M)

The intermediate subset is the predominant data set used to gauge YOY performance for marina investment activity. This subset curates sales between one and ten million dollars since this is the price range where most marinas trade, while further capturing the greatest buyer pool and various buyer profiles (as compared to $20M+ transactions which are acquired by institutional investors).

Insights supported by this data include the slowdown in sales in 2020 which correlates with the pause in investment as the world watched how COVID would influence day-to-day life. More recently in 2022, we recorded a mere 18% of sales transacted in Q4, compared to 41% and 36% for the same time period in 2020 and 2021, respectively. While we believe the numbers reflect a great story of investor sentiment, they are not the complete set of sale records because many transactions are reported with undisclosed prices, while other deals are lagging or entirely unreported.

When we look at all reported data that is was collected for YOY comparison, we classify all sales reported with one exclusion – no portfolios. This means the data included in the set are deals sub-$1M, $1-20M, $20M+, redevelopment deals (existing marinas that were bought for other purposes, if not to be redeveloped as a new marina), and sales with undisclosed prices. You can understand how the latter categories do not indicate operational marina performance and investor demand, yet still serve as either supply being taken out of the market, revamped, or quality deals that did not report a price (arguably the most challenging category that can skew data).



COMPARATIVE METRICS

Comparing 2022 to 2021 is not exactly apples-to-apples when we consider the exceptional year that was 2021, and the lackluster second half that we just experienced in 2022. A rapidly changing debt market stalled transactions (leading to price reductions), pushed investors to the sidelines, and quickly shifted the valuation landscape for the foreseeable future. Yet, recorded sales in the intermediate subset were at 114, compared to 121 just one year prior. Additionally, the average price was up in 2022 by a little more than 5% - this indicates that more marinas sold at higher price points in 2022 in the $1-$10M tranche.

When we compare the entire intermediate subset with the Marina Sales Superset ($1-20M), we can see how total transaction volume is influenced by smaller and larger deals. On a micro level, we will further explore the intermediate subset when split in half, but the percentage of deals in the subset consistently accounts for over 80% of all sales in the superset – supports that most investment is in marinas priced under $10M.

TRANSACTION FREQUENCY

Further isolating the data, we uncover interesting stats about the quarterly closings.

2020	2021	2022
	Q1	
14%	19%	32%
	Q2	
26%	26%	27%
	Q3	
20%	20%	24%
	Q4	
41%	36%	18%

Fig. 2

Now, many variables are involved in a marina transaction, several of which can delay a closing – a one-day delay could mean the difference between a sale being classified as Q2 or Q3. Yet, comparing the data to macroeconomic conditions, we see interesting results that support anecdotes and theories about how investor sentiment has changed over the course of three years.

We can see that 2020 had a slow start, 2021 was strong, coming off a big Q4 2020, which carried through Q1 and Q2 2022. It was in Q4 that we recorded a significant pullback in transactions, likely due to the Fed interest rate hikes forcing many investors to pump the brakes, evaluate their household financial situation, and recalibrate offer

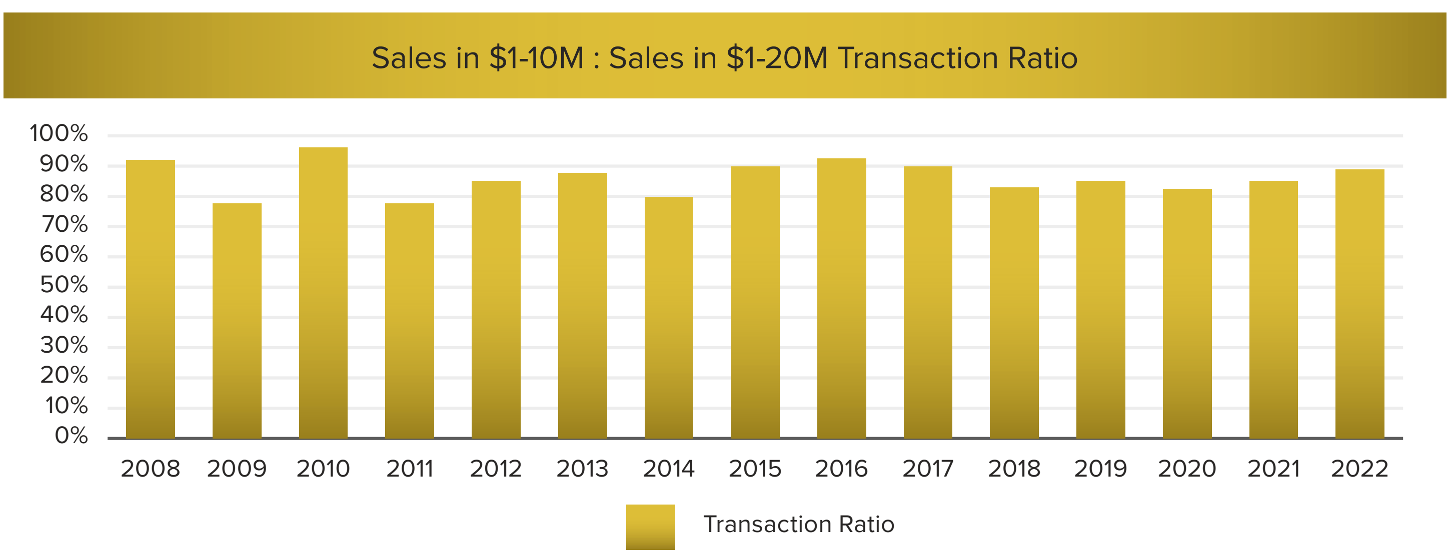


Fig. 1

prices. We can report anecdotally that this was the case in Q3 and most of Q4, but adjustments in both buyer and seller expectations led to successful transactions and renewed investment interest.

INTERMEDIATE SUBSET: THE BREAKDOWN

$1-4.99M[2]:

In 2022, 87 transactions occurred between $1-4.99M (76% of the subset), with average and median price points of $2,354,901 and $2,000,000, respectively. The average price point is just <1% higher than in 2021, and the median price is equal. Overall, there were 8.5% fewer transactions in this tranche than in 2021, but price points stayed level YOY.

$5-9.99M[3]:

In 2022, 27 transactions occurred between $5-9.99M (24% of the subset), with average and median price points of $7,036,935 and $6,750,000, respectively. The average price point is 4.3% higher in 2022, and the median price point is 6.4% higher. Transaction volume was about equal at 26-27 transactions, indicating that there is still interest and demand for assets in this price range which is on par with historical years. Just because the price point falls over $5M and under $10M, does not mean the marina is a bad investment – our experience has shown that traditionally, this is a tougher price range for a larger buyer pool because private buyers would be overextended, while institutional investors need more scale. This is changing, however, and as opportunities in this range continue to hit the market, we hope investment strategies take advantage of what are less frequent deals.

INTERMEDIATE SUBSET HIGHLIGHTS:

$1-10M Tranche	2021	% Change	2022
# of Transactions	121	-5.79%	114
Average Price:	$ 3,292,748	5.19%	$ 3,463,803
Median Price:	$ 2,850,000	-6.68%	$ 2,659,642

Fig. 3

Disclaimer: *To our knowledge, this data is not a complete set of marina sales. We strive to provide the most accurate data based on public records, but this will not always account for stock sales and other unreported sales. Price points tend to be reserved, most notably in non-disclosure states, but we still aim to record the sale as an arms-length transaction, even if we do not yet have the price.*

Anchoring Your Finances: Navigating the World of Marina Financing

As we learned in 2022, inflation can have a significant impact on the lending environment, making it more challenging for businesses to obtain financing. With rising prices and increased costs, lenders may be more hesitant to provide loans, and borrowers may struggle to meet the more stringent lending criteria. Obtaining financing during high inflationary times requires careful planning and a solid understanding of the lending landscape.

The Federal Reserve's decision to raise interest rates is often influenced by macroeconomic indicators, such as employment data (see chart 1), GDP growth (see chart 2), and inflation rates. In recent years, the United States has experienced relatively low unemployment rates, with the average rate in 2022 hovering around 3.6%. This strong labor market has put pressure on wages, which can lead to inflationary pressures. Additionally, GDP growth has been retracting but is still positive, with a growth rate of .9% in Q4 of 2022. This growth over the past year, combined with the pandemic-related supply chain disruptions, has resulted in higher prices for goods and services, contributing to inflationary pressures. In response to these factors, the Federal Reserve raised the federal funds rate at an unprecedented pace from near-zero levels in 2021 to combat inflationary pressures and maintain price stability.

"The major negative impact to the markets has been the speed in which rates were raised – very rapidly. As interest rates rise, in particular the benchmark 10-year Treasury Rate, this generally has a downward effect on prices for assets. Lenders spent a considerable amount of time in the second half of 2022 reviewing the performance of their existing loans, and introduced "caution" in underwriting new loans."
– Leisure Financial Group

An increasing federal funds rate can have an impact on the ability of an investor to obtain a loan, although the specific effects will depend on various factors such as the lending environment, the type of loan, and the financial health of the property seeking financing. One effect of an increasing federal funds rate is higher borrowing costs. As the federal funds rate rises (see chart 4), the cost of borrowing for banks and other lending institutions also increases. Lenders may pass on the increased costs to borrowers by raising interest rates on loans, which can make loans more expensive for properties seeking financing.

Chart 1: Unemployment Data
Source: Trading Economics

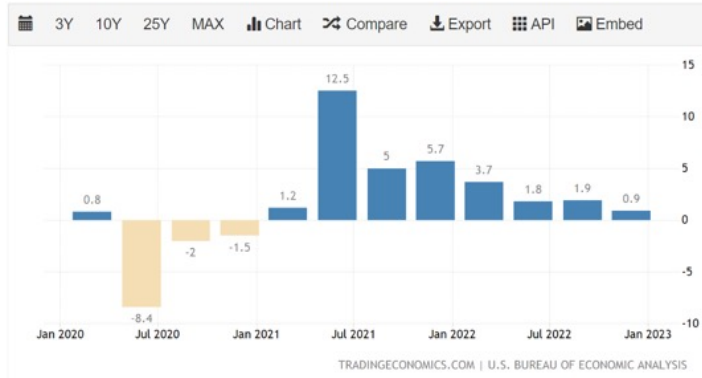


Chart 2: GDP Growth
Source: Trading Economics

Chart 3: Inflation Rate
Source: Trading Economics

Chart 4: Federal Funds Rate
Source: Trading Economics

Another potential effect is reduced lending activity. When borrowing costs are higher, borrowers may be less willing to take on debt, and lenders may become more selective in their lending decisions. This may require more strict criteria for approving loans, making it harder for investors to obtain financing. An increasing federal funds rate can also lead to increased competition for loans. Higher interest rates may encourage businesses and individuals to secure financing before rates rise further, resulting in more borrowers competing for the same pool of funds. This could make it more challenging for investors to obtain financing if they are competing with other businesses for the same funds. In light of these factors, it is important for marina investors seeking financing to work with an experienced lender who understands the unique aspects of marina financing and can help navigate the changing lending environment.

Marina investors can take several measures to improve their chances of acquiring financing from a bank. First, they should create a robust loan application, including a comprehensive business plan, financial statements, and projections showcasing the marina's ability to generate revenue and repay the loan. Second, building a rapport with the bank can help marina investors acquire financing more efficiently. This entails establishing accounts, sustaining communication, and participating in local business events. Third, collateral can be a decisive factor in obtaining a loan. Investors should be prepared to pledge assets such as real estate or equipment to secure the loan. Last, they should anticipate due diligence, which typically involves a review of financial statements, business plans, and interviews with key personnel. By following these measures and working with an experienced lender familiar with the intricacies of marina financing, owners can increase their chances of securing financing and continue to run a thriving establishment.

LIPG Exclusive: Leisure Financial Group

We recently sat down with the Leisure Financial Group to discuss the lending environment for Marina assets. Leisure Financial Group (LFG) is an experienced mortgage brokerage firm that structures, arranges, and services loans in the real estate industry. LFG is a recognized leader in specialty financing solutions for Marinas, Resorts, Golf Courses, and other Recreational Properties.

1. What was the marina lending market been like over the last 12-24 months?

The lending market for marinas has been relatively strong and improving over the last 12-24 months. Good economic performance by marinas in many markets has helped to "persuade" more banks to consider making loans to the industry. While private debt groups and bridge lenders have been actively lending to marinas over the last 10-15 years, banks have taken a little longer to enter the space, but its occurring. This is good news for marina owners since banks often offer the best terms/rates for financing.

2. What has the Fed been doing and how has this affected the marina debt market?

In 2022, the Fed pivoted from an "easing monetary policy" to a "tighter monetary policy" and has done so by dramatically raising interest rates. While rates are much higher than was seen in early 2022, by historical standards rates are not exceptionally high. The major negative impact on the markets has been the speed at which rates were raised – very rapidly.

3. What effect do rising interest rates have on the pricing of assets?

As interest rates rise, in particular the benchmark 10-year Treasury Rate, this generally has a downward effect on prices for assets. Lenders spent a considerable amount of time in the second half of 2022 reviewing the performance of their existing loans and introduced "caution" in underwriting new loans. Marina loans were impacted most significantly in that higher rates are now being charged by lenders – but that is true for all asset types.

4. What can we expect or prepare for in 2023?

2023 should see a slowing or stopping of Fed interest rate increases as inflation has started to decline significantly. 2023 should be a more stable period of rates and if a recession is going to occur due to the rapid rise in rates in 2022-23, expectations are that it will be mild. Since marinas are enjoying continued demand, despite higher interest rates, and inflation in dock/rack lease pricing, boat ownership trends appear to be continuing. This demand will allow marinas to operate successfully with higher interest rates, or during a mild recession.

5. Sample range of conventional LTV, interest rate, and amortization that can be expected today (terms will vary based on sponsor/location)?

While each loan decision is based on the specifics of a particular request, the range of many of the quotes that are seen recently are:

- LTV – 50%-65% (conventional loans) – 65%-80% for SBA
- Rates – floating at 5.75%-7.5% (some fixed rates are available)
- Amortization – 20-25 years conventional loans – 25-30 for most SBA

6. What is the process to apply to get a loan?

The loan process can be frustrating to most owners/buyers of marinas. The key to success is to have a clear checklist upfront of the requirements the lender has and then provide these items to the lender. Each lender will have an outline of what they need so if you are seeking a quote from several lenders to find the best rate/structure, this can be a lot of work.

The first step is to have a comprehensive outline of information regarding the marina and included detailed financial summaries. The second most important item to present to lenders is information regarding the borrower and the individual owners. Lenders want to see personal financial statements, tax returns, and credit reports. The third step is to work with the lender on ordering third party reports which include a lender ordered appraisal, a Phase 1 environmental report, and a property survey. Having a skilled attorney is another requirement to close a loan. The lender will have loan documents prepared by counsel and the borrower's attorney should be used to review these and to help negotiate language and structures as the borrower directs.

7. How long does the process typically take to get approved for a loan?

Generally, the loan process with a conventional bank loan or an SBA loan takes between 60 and 120 days. The process can move faster, but appraisals and surveys often take a few weeks to complete.

8. Types of loans and what are the advantages?

Bridge Loans: Are used by borrowers in a hurry that need to close on a purchase fast – often within 30-45 days. These loans are generally made by private debt groups that may not require an appraisal and will make underwriting decisions quickly. Bridge loans generally have significantly higher interest rates, and higher loan-to-value ratios and have loan terms of 1-2 years, instead of 5 – 10 years for conventional loans.

Bank Loans: Are also called conventional loans. These loans are made by large and small banks that often offer the lowest rates and longer loan terms extending 5-10 years. Bank loans can be helpful as they establish a depository relationship with a lender and banks can see how successful an owner is in the business. This "relationship" often helps smooth the way for future loans.

SBA Loans: SBA loans are a loan product that helps to support banks/lenders to provide loans to small businesses. The SBA loans are made through banks where the bank underwrites and approves the loan using SBA guidelines and the SBA provides the lender with as much as a 90% loan guarantee. The benefit of an SBA loan is that it can be fully amortized, so no need to refinance, and can extend for 20-30 years. Rates can be competitive with conventional loans as well. SBA loans do have strict limits on how much SBA debt an investor/owner can have so they may not be appropriate for larger operations.

Preparing Your Marina for Sale

As with other businesses, successfully selling your marina requires planning and sometimes physical clean-up so the marina is viewed in the best light possible on the market. **We recommend starting at least six months to one year ahead of hitting the market**, that way the appropriate preparations can be made as it relates to your property and your exit strategy. In this article we look at the physical, financial and proactive steps you can take to put yourself and your marina in an advantageous position for a sale.

CAP-EX & COSMETIC REPAIRS

It is not uncommon for many owners to decide to sell when there are outstanding cosmetic/minor repairs needed around the property. These are typically quick fixes to enhance the property's presentation to buyers. Before addressing these, we always recommend a thorough assessment of infrastructure and heavy equipment to determine if there are items you can repair before beginning the marketing process, or if these are items better left to a new owner with a long-term plan. These areas include: any deferred maintenance affecting the seawall, dredging, slips/racks, ramps, fork-lifts/travel-lifts, utilities, decking, electrical to slips up to code, roofs, parking, utilities like water and sewer, and general grounds condition.

Moving to the "curb appeal" items, you want your marina to look clean and presentable when buyers tour. Fresh paint, fresh landscaping, clearing out unused equipment and scraps, as well as organizing the ship's store can go a long way. Abandoned boats, broken cars, trailers, and rubbish on-site are also cause for concern to a buyer. Great first impressions are made with great curb appeal, which is just as important for your marina as it is for a house.

Problems that are known before going to market can usually be solved, or at least annotated, in the Offering Memorandum. Problems that surprisingly arise in the middle of a transaction, however, must be dealt with in real-time, and can commonly be solved with your LIPG advisor.

PREEMPTIVE INVESTIGATIONS

To get ahead of potential "surprises", we have a few suggestions:

ENVIRONMENTAL:

It is good practice to have a Phase I environmental study completed before going to market if you suspect there could be a problem. Are your fuel tanks up to code? Is there hazardous runoff from your service department impacting the water and soil? Any potential problems known on the front end will save you time, money and legal liability down the road with a potential buyer.

TITLE:

Have an owner's title check completed to see if there are any issues on the title that could cause a problem getting a deal closed. It is not expensive and worth the peace of mind. Are there any survey issues that have not been addressed? We recommend solving those before going to market.

FINANCIALS & ACCOUNTING

After addressing the physical items of the marina, it is time to look at the financial performance and valuation of the business. To start, financial data normally requested includes:

P&LS:

- 2-4 year-end P&Ls detailing Revenues, Cost of Goods Sold (COGS) and Expenses.
- Each Profit Center (restaurant, ship's store, service department, etc.) broken out to isolate the various income streams and departmental expenses.
- Identify one-time capital expenditures (improvements) in the operating expenses, and significant personal items that are not pertinent to the marina business.

RENT ROLLS:

- Organized and current list of your slips, racks, and/or land storage.
- Occupancy rates for each storage option.
- Rent roll of on-site commercial tenants.
- Rental rates associated with each storage option and tenant

CAPITAL IMPROVEMENTS (CAP-EX):

A list of major capital improvements you have made over the last 3-5 years, including the cost of each improvement. Identifying those items will accurately reflect operating expenses vs. the one-time capital expenditures to improve the property, translating into a more accurate valuation of your marina.

APPRAISAL:

If available, an appraisal can provide additional detail on the property, and down the road information for a potential buyer to review. We recommend reviewing the appraisal to ensure the facility details are still accurate, while noting any changes that have been made since the time of the appraisal.

SURVEY AND LAND RESTRICTIONS:

Ideally a recent survey will provide acreage, zoning, land use restrictions, utilities, and land for potential expansion that adds value to the marina. Many marinas operate with subsurface or real estate leases/permits, which are documents you will also want to have readily available before going to market.

QUESTIONS TO CONSIDER:

- What is your current exit strategy?
- How does re-investment of the net proceeds from a sale help you get to where you want to be?
- How is the property owned? Are there multiple partners?
- What operational matters need to be addressed?
- Are there outstanding obligations to your customers and third-party vendors.
- If you do not exercise a reinvestment vehicle, what is your expected capital gains tax?
- Is there a prepayment penalty on existing debt?

WHAT IS YOUR MARINA WORTH?

You do not have to know all the answers to the above questions before we can help you understand the approximate value of your marina. With the above critical information (like the P&Ls and rent rolls), we prepare you with a complete **Strategic Analysis.** This analysis includes the following:

- Complete and detailed financial analysis showing the investment financial position and how it relates to the current marketplace.
- Analysis of your current operation and any issues.
- Competitive market rate analysis.
- Competitive marina sales analysis.
- Pro Forma Business Plan that outlines a path to future profitability.
- Pre-marketing recommendations.
- Suggested asking price and likely sales price range.

When all combined, a valuation, cosmetic repairs, and any deferred maintenance remediation will ensure you are in a strong position as you prepare for a sale. Our Strategic Analysis is the bridge to help you make rational business decisions as you move forward; minor cosmetic touches and repairs will increase property presentation; and maintaining organized files will allow for a smoother transaction when you do decide to sell.

> *Helping owners achieve this peace of mind and clarity of direction as they navigate the complexities of a sale is what the Leisure Investment Properties Group does best.*

Our analysis, presentation, and packaging is institutional-grade and offered to every marina owner because understanding your investment and how it can help you get to where you want to be is too important to you and your family's future to be approached any other way.

Marina Exit Strategies: Delaware Statutory Trust (DST) & 1031 Exchange

- Trouble finding a replacement property?
- Nearing the end of your exchange window?
- Difficulty securing financing?
- Tired of property management headaches?
- Looking to diversify your portfolio?
- Need 1031 backup ID properties?

The 1031 exchange is arguably the most advantageous tool when it comes to owning commercial real estate but comes with a price. That price, strict IRS guidelines, and timelines make even the most seasoned investors anxious. With 45-day identification and 180-day closing timeline requirements, a successful 1031 exchange can be more difficult than anticipated An increasingly popular option for 1031 exchange investors is the Delaware Statutory Trust or DST.

WHAT IS A DELAWARE STATUTORY TRUST (DST)

The Delaware Statutory Trust (DST) is a legal entity created under Delaware law that permits fractional ownership of real estate assets that may be used in a 1031 Exchange. Delaware Statutory Trusts (DST) are recognized as “like-kind” property, making them 1031 exchange eligible. For this reason, an exchanger can choose to defer taxes by investing in a DST rather than through a traditional fee-simple property.

DSTs are typically institutional-grade properties managed by professional property management firms located in high barriers to entry markets. Property values can range from $5 million up to $ 1 billion portfolios. Each DST property is pre-financed and pre-closed making the DST a popular option for 1031 exchange investors looking to acquire the replacement property.

HOW DO DSTS WORK?

A DST is formed by a sponsor firm, typically a large REIT, private equity, or development company for the purpose of holding real assets. From there, real estate is purchased by the sponsor firm, placed into the trust and equity is available for 1031 exchange or cash investment. Investors are “beneficial owners” and own an undivided fractional interest in the trust. DST properties are assigned an asset manager, typically the sponsor firm or a third-party management company to ensure the asset is being optimized. Upon the sale of the DST, investors can choose to exchange their interests into another DST or purchase a traditional fee-simple property.

ADVANTAGES & DISADVANTAGES OF OWNING A DST

DST ADVANTAGES

There are many advantages associated with owning Delaware Statutory Trust (DST) properties along with a few disadvantages. Some advantages include institutional grade properties, professional property management, flexible diversification, and a simple, efficient way to 1031 exchange. DST properties also have lower minimum investments typically starting around $25,000 and offer excellent asset/liability protection through non-recourse loans and default risk. Because DST properties are pre-financed and pre-closed, investors can alleviate risks associated with 1031 exchange closing and loan qualification risks. In addition, investor due diligence is consolidated into one document called the Private Placement Memorandum or PPM provided by the sponsor firm. At year-end tax reporting is simple with forms 1099, 1098 ,and P&L reports.

DST DISADVANTAGES

There are a few disadvantages as well to consider before purchasing. Loss of control – because DSTs are set up with a General Partner (GP) (sponsor) and Limited Partners (LPs) (investors), the LPs do not have voting rights or controlling interests. Illiquid Investment – DST interest is considered an illiquid investment and there are no developed secondary markets. Upon purchasing a DST property, the sponsor firm will give a targeted investment time horizon which they intend to hold the property (avg. of five to seven years). A DST investor should always consider this objective and plan to hold their interests for the stated investment time horizon.

DO LEASE-HOLD INTERESTS QUALIFY?

For marina owners whose land is primarily or partially leased from a government agency, a 1031 exchange can still be elected with some additional rules. Fee-title investment real estate is the most common property type exchanged, but leasehold interests can be used in exchange transactions as well. The Internal Revenue Service classifies leasehold interest as “like-kind” if the leasehold itself is for 30 years or longer. This can include a 20-year term with two five-year renewal options.

ADDITIONAL USES: 1031 BACKUP & BOOT

Two popular ways investors implement the DST into their 1031 exchanges are: as a 1031 Backup or a 1031 Boot Backup. Exchange-X is the nation’s leading 1031 exchange real estate investment platform for Delaware Statutory Trusts (DST) properties. The Exchange-X marketplace offers direct access to over 50 leading DST sponsors and dozens of active offerings. Our mission is to provide an all-in-one, comprehensive real estate investment platform to easily search, review, identify, and acquire institutional-grade replacement properties for 1031 exchange buyers. Since its inception, Exchange-X has transacted over $1 billion in real estate offerings on behalf of more than 700 investors. Our clients include 1031 exchange buyers, real estate owners/operators, investment groups, corporations, insurance companies, pension plans, and more.

For more information or questions about Delaware Statutory Trust (DST) properties, contact your LIPG Marina Advisor or:

Book a Free 15-Minute Consult or Contact Peter Marzo: (888) 775-1031 or pmarzo@exchange-x.com www.Exchange-X.com

What Our Clients Say

"Brett's professional presentation was by far the best out of all the firms we interviewed prior to listing the asset. His extensive marina business knowledge is impressive, and his easygoing personality is a pleasure to work with. It is refreshing to find an agent who cares on a personal level, is always available day and night 7 days a week, and who treats his clients in a very professional manner in every instance, including during challenging moments."

"I was promised professionalism, transparency, communication and an effective marketing process among other things... Jeff and Brett delivered on their promises. If you own a marina and are thinking about selling, I highly recommend speaking with LIPG."

"Our family wants to highly recommend to anyone thinking of selling their marina to work with Jeff Spilman and Leisure Investment Properties Group to market and sell their marina. Jeff demonstrated his experience by diligently and professionally advising us through the entire process and coaching us as to what to expect from the market. He helped us work through complicated issues to get to closing. Jeff brought us multiple qualified buyers who made very competitive bids. He eventually brought us the eventual cash buyer that we felt gave us the best chance to close."

"We were very impressed with their professionalism and attention to detail throughout the entire process. Jeff and Brett walked us through the process with an initial analysis of the marina, and really sat down with us to go over different exit options."

"Overall working with Brett and LIPG brought us the best value for our marina... we worked with him to identify a potential value and what areas we needed to improve to obtain the best possible price... his assistance was invaluable in making the sale an efficient and great experience. I would highly recommend [LIPG] and their support!"

LIPG

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