

How Much is That Marina in the Window? Watertight Due Diligence Lets You Know For Sure

As people gravitate to the coastlines, investing in waterfront property is becoming more attractive to developers. But the availability of desirable waterfront land is rapidly declining. As a result, now it's more important than ever to make sure you're making a worthwhile investment, and the key is conducting "watertight" due diligence before you're in too deep.

When marina owners are looking to sell their property, they aren't going to go out of their way to point out underlying problems to the buyer. "It's important to examine the true value of waterfront property since most of the buyer's cash is tied up in the purchase," says Sam Phlegar, vice president with ATM. "If you make an uninformed purchase, you may not realize there are hidden problems, and then you have very little capital available for upgrades or improvements during the first few years of operation."

Due diligence should include a comprehensive study of structural conditions and environmental issues, as well as an evaluation of the potential for future success in the market. According to Ed Modzelewski, chairman of ATM, inadequate environmental testing and structural evaluation are probably the biggest obstacles developers face— if you don't do enough to identify hidden problems, you can wind up with a "money pit" on your hands.

Here are some key factors to consider when conducting due diligence for a waterfront property purchase:

- Structural conditions and deferred maintenance.** Marina infrastructure components deteriorate over time— potential buyers should focus on identifying engineering or structural deficiencies and deferred maintenance costs. "You need to get a good understanding of what it takes to maintain the facility," Modzelewski says. "How much money will you need to put into annual maintenance? What large-scale deferred repairs are needed?"

Take a close look at the condition of the marina's infrastructure, including the service life remaining in different components like bulkheads, seawalls, docks, fire

protection systems, service areas, and even parking lots. Wind and waves cause considerable wear and tear, and potential buyers should be on the lookout for warning signs like rust, cracks, and alignment problems.

- Environmental issues.** It's key to examine the integrity of underground fuel tanks and the possibility of soil contamination, as well as the standing of environmental permits. Examining environmental issues allows a potential buyer to make sure that permits are current and uncovers possible limitations that might exist in terms of dredging or expansion.

"Due diligence plays a paramount role in determining permit liabilities or a history of good environmental compliance," says

Modzelewski. "Understanding the details of environmental issues is also important when considering opportunities for future expansion— federal or state regulations could limit the number and size of slips that can be built." *[continued]*

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THE RISE OF THE "DOCK-OMINIUM"— THE FALL OF PUBLIC MARINAS?

As the demand for waterfront land increases and property costs skyrocket, developers are looking for better ways to make the most of their waterfront investments. "It's not that marinas aren't profitable," says Ed Modzelewski, chairman of ATM. "But with the high cost of prime waterfront property— not to mention the costs of managing the marina business— it can be tough to get a reasonable return on investment."

More and more developers are finding that a mixed-use development can be a solution to their return on investment troubles. "The residential marina village concept is in very strong demand right now," Modzelewski says. "This type of development provides a community for residents with upland condominiums and access to docks. It seems like a good portion of the population wants to live along the water, and they're willing to pay quite a bit of money to do so. I esti-

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The Waterfront

A bi-monthly publication of Applied Technology & Management, Inc.

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- Market pressure.** Another important aspect of due diligence is to accurately evaluate the current atmosphere for business in the region, as well as the prospect for the future. How is the marina currently perceived by boaters? Who are the competitors? Are their facilities newer? Do they offer more services? Do they have better docks or better protected waters?

As competition increases and the trend toward larger vessels continues, it's becoming more important for marinas to understand—and meet—boaters' needs. They're looking for more than just a parking lot, and they'll seek out the marina that provides the best services and extensive upland amenities. You don't want to get locked into a marina that's losing market share or that has no opportunity for future success. "There are a lot of questions you have to explore," Phlegar says. "You can't just look at the facility independently—you also need to look at the market it's in, the facility's position in the market, and the potential for growth."

"Whether you're a buyer, a seller, or a lender, evaluation of the property is critical," Phlegar says. "The costs of conducting sufficient due diligence are negligible when you consider the price of the facility. You've got to be sure you have an accurate picture of the property's value before jumping into a purchase." ☉

[Dock-ominium continued]

mate that more than 80% of new marina facilities are being integrated into mixed-use development.

But what does this focus on mixed use mean for average public boaters? The combination of residential, retail, and marine facilities is a good way for developers to make their waterfront investment more profitable, but as they transform public facilities into marina village communities there's increasingly limited space available to the boating public.

It's a plain and simple fact that there are fewer locations that are suitable for marina facilities along the East Coast," says Sam Phlegar, vice president with ATM. "High costs and market pressures are pushing developers to take public marinas and integrate them into residential communities. The growing trend of marina village development projects means that public docks are being replaced by 'dock-ominiums.' It may be the best investment for waterfront developers, but John Q. Public is losing the ability to keep his boat in the water." ☉

Recession Skips Over Marina Industry

Although the aftershocks of September 11 and a downturn in the economy have wreaked havoc on industry across the country, the biggest challenge for marina owners isn't dealing with the economy—it's successfully keeping up with bigger boats.

As people continue to flock to the waterfront, it's apparent that the recession has not had a significant impact on boating. "I don't think the recession has impacted the marine industry at all," says Sam Phlegar, vice president with ATM. "People are really making an effort to spend more time with family and friends, and that translates into more recreational activities. Even with a downturn in the economy and a reduction in 'disposal income spending,' recreational boating has not been sacrificed."

According to Ed Modzelewski, chairman of ATM, it appears that higher-end boaters with mega-yacht-type vessels have been insulated from the current economic slowdown. "In fact, there's been a steady upswing in the demand for larger vessels," Modzelewski says. "As a result, many marina owners and operators are attempting to upgrade their facilities and provide expanded slips. They're changing their mix of slip sizes to accommodate the increased number of mega-yachts."

To keep up with changing market demands, Modzelewski suggests monitoring local, regional, and national sales trends. "Boaters are gravitating to longer and wider vessels," he says. And marina owners and operators need to be able to provide the upgrades and expansions to offer berthing for larger boats." ☉

