3 The Investment Case

Marinas are capable of delivering sustainable and reliable investment returns, consistent with the structural attractiveness of the marinas marketplace and the availability and choice of sites.

Nominal pre-tax rates of return (IRR) of up to 18% are expected for newly constructed marinas. In addition, marinas are increasingly becoming an important part of regeneration areas where wider benefits and added value to surrounding development help to improve viability.

The key factors in a marina investment are the price payable for land, earthworks and construction costs; and the level of mooring charges.

There is little open market evidence of the value of marina land. As ground conditions have a significant effect on construction costs, residual valuation techniques are the only reliable way of determining what price should be paid for a given site. In our models we have assumed a price of £50K per hectare for good water retentive sub soils and £35K per hectare where some form of impermeable lining is required.

Excavation and construction costs can vary widely and are very much dependent on ground conditions and topography. Our models have assumed that 25% of the excavated material is exported off site to landfill.

The most viable developments are at sites that require lower excavation and construction costs, where excavated material can be sold at a profit or where land can be acquired more cheaply.

An annual mooring charge of £120 per boat metre excl. VAT has been assumed for our models. While this is at the top end of current charges in the market, we believe this level is well underpinned by both demand and the potential for increased amenity. These rates do however vary depending on geographical location. Currently sites in the Midlands and North find it difficult to obtain rates much above £80 per boat per metre.

3.1 OVERVIEW OF MARINA ECONOMICS

Marinas are a capital-intensive business and require a large initial investment in site development, which is recouped via relatively stable revenue streams and predictable operating costs. The core revenue and profit stream from a marina is mooring charges to boaters.

Ancillary revenue streams, from activities such as boat sales, workshops and sale of fuel are also important. Ancillary activities tend to have lower gross profit margins than moorings, but make an important contribution to fixed costs. Our standard model assumes a relatively simple marina. However larger and well-located marinas can sustain a greater variety of complementary activities. They can become minor visitor attractions in their own right generating additional income from retail, catering and other visitor related revenues generated by non-boaters as well as boaters.

3.2 INVESTMENT MODEL

Amongst the choices to be made around a marina investment, size (number of berths) and scope of ancillary activities are the most important. These are driven by both market and site characteristics. The other key drivers of returns are land price and construction costs

This guide sets out illustrative financial projections for two principal marina models, with some accompanying sensitivity analysis:

- **Standard marina:** A 250 berth marina with boat sales and brokerage, fuel sales and a small shop
- **Marina plus:** A 350 berth marina with additional ancillary activities including restaurant and larger retail (predominantly clothing, gifts and minor convenience retail)

This guide focuses on the financial returns from stand-alone marina investments, on undeveloped sites. The specification and assumptions adopted in this guide are as follows:

Standard Marina

- start up costs to include land acquisition, obtaining planning permission (often requiring an Environmental Impact Assessment, site surveys etc)
- site area 7.5 hectares, of which waterspace area 2.7 hectares (94 berths per hectare)
- 250 berths for an average boat length of 15 metres
- impermeable ground conditions
- 25% excavated material exported off site to tip
- fixed pontoons with service bollards
- simple single building including services block
- simple surfacing for access road and car parks
- utilities, landscaping and security
- annual mooring rate of £120 per metre net of VAT
- five residential boats with 50% premium on mooring rate
- boat brokerage
- fuel sales and small shop
- services block

Marina Plus as standard marina except the following:

- site area 10.5 hectares, of which waterspace area 3.7 hectares
- permeable ground conditions (impermeable lining required)
- 350 berths for an average boat length of 15 metres
- larger shop
- leased restaurant

More attractive returns would be achievable under different circumstances – for example:

- excavated material has commercial value (eg minerals, clay)
- when there are opportunities to develop other complementary uses such as pubs, hotels, specialist retail and residential. In these circumstances profitability is underpinned by a customer base that is much wider than just the mooring berth holders and there is a contribution to construction costs from the premium added to residential values for being next to water
- where a marina is included in the plans for a new commercial development – either because the developer may perceive it to add value to the selling price of the properties (premiums of around 20% are quoted by property industry sources) or because site allocations within the statutory local development frameworks require the provision of a mooring basin as part of any future scheme

3.3 INVESTMENT COSTS

The start-up and capital costs of building a marina can be divided into those associated with the pre-build stage and build stage.

During the pre-build stage, there are costs involved with finding and buying a site, and securing the appropriate consents. Professional assistance with these tasks is recommended.

A 250 berth marina typically requires about 7.5 hectares of land and a 350 berth 10.5 hectares. About 35% of this area is the waterspace and the other 65% buildings, car parking, hard standing and landscaping. Our models reflect a cost of land ranging from £35K to £50K per hectare. However land prices are of course highly variable and heavily influenced by location, ground conditions and the nature of planning consent and can vary from below £10K per hectare for pure agricultural use to in excess of £750K per hectare for brownfield regeneration land. Given this uncertainty, sensitivity analyses are also set out in this chapter.

Once a site has been located and plans have been drafted, the proposed marina will require planning permission. The planning authority may require an Environmental Impact Assessment, dependent upon the scale of the development and sensitivity of the location. Additionally, British Waterways' consent for a connection between the proposed marina and the relevant waterway must be obtained. In total, start-up costs associated with these activities are likely to average in the region of £150K.

The basic construction of a typical new marina includes excavation and disposal of spoil, ensuring that the excavated area is watertight and has piled edges only where it is necessary (for example around the connection to the waterway and to allow boats to moor directly to the bank). The most favourable sites have good water retaining sub soils which avoid or minimise the need for expensive linings. The excavated material should be clean and ideally be capable of being sold for other uses. Every effort should be made to re-use non saleable excavated material on site for soft landscaping, again minimising disposal costs.

Pontoons represent another major cost and are generally fixed as water levels in canals do not vary materially. On rivers more expensive floating pontoons will be required. Table 4 shows the indicative development costs for the two models considered in this guide.

Table 4: Indicative development costs

Investment Costs (£'000)	Standard Marina	Marina Plus
Start up	150	150
Land acquisition (including costs and SDLT)	400	400
Earthworks	970	1,350
Lining (Plus only) and piling	130	460
Connection to waterway	30	30
Pontoons and bollards	500	700
Buildings (and boatyard Plus only)	130	510
Landscaping and security	160	220
Utilities	80	80
Total	**2,550**	**3,900**

3.4 REVENUES

Mooring prices are largely determined by the marina's location (with the southern half of the country being more expensive) and the level of amenity it provides. Typically moorings are charged per metre based on the length of the boat, usually on an annual basis. Our investment case assumes an annual mooring charge per metre per annum (excl. VAT) of £120. These charges are relatively high when compared to current rates.

This reflects two beliefs

- that new marina capacity will be built to a generally higher level of amenity and quality than existing, and
- that the industry is currently failing to capitalise fully on the pricing opportunity represented by future demand growth and existing long waiting lists

The financial sensitivity to mooring price assumptions is set out later in this chapter.

Other mooring types not factored into the model include commercial moorings for hire boat or timeshare companies which may commit to securing multiple moorings on an ongoing basis, visitor moorings for those wishing to pay on a per day basis for a temporary berth and moorings for business barges. There is potential to exploit the visitor mooring market by letting visiting boats use berths vacated temporarily when long term berth holders are away on extended cruises.

Revenues and investment returns are highly dependent on marina occupancy. As discussed in Chapter 2, almost all marinas are full and have long waiting lists. We have therefore assumed 95% ongoing berth occupancy (a practical maximum based on experience) with a build of 33% average occupancy in year one of operation and 66% in year two.

3.5 OPERATING COSTS

The principal operating costs at a marina are similar to most leisure businesses - staff, maintenance, marketing, rates and utilities, and cost of goods for the retail operations. In existing marinas, these costs vary over a fairly wide range on a per berth basis, reflecting the difference between basic operations with relatively low service levels but low and highly flexible staffing levels, to high amenity marinas where service levels are high and a range of amenities are provided.

Marinas also pay a charge for access to the waterway network.

Access to the network is authorised by a Network Access Agreement with British Waterways for which there is a charge based on the mooring capacity and pricing. Currently this charge is set at 9% of mooring revenue capacity, reviewed annually. For the standard marina model this would be around £38,000 per annum and for marina plus, around £54,000 per year.

Our standard marina model assumes a level of staffing of three FTEs. Gross margins in the retail operation have been assumed at 30%, with fuel sales at 20%. Commission revenues on boat sales have been assumed at 10%.

3.6 ILLUSTRATIVE P&L

Our illustrative P&L, based on the above assumptions, is shown in table 5 for year three of operation, at current prices.

Table 5: Illustrative Profit and Loss statement

(£'000)	Standard Marina	Marina Plus
Key Metrics		
Number of berths	250	350
Personnel, FTE	3	5
Total revenues (£'000)	**630**	**1,020**
Revenue - Moorings	430	600
Revenue - Ancillary	200	420
Total allocated costs (£'000)	**170**	**310**
Allocatable costs - Moorings	50	50
Allocatable costs - Retail	40	70
Allocatable costs - Fuel Sales & Boatyard	40	150
Allocatable costs - Boat Sales	40	40
Unallocatable costs (£'000)*	**160**	**210**
Total operating costs (£'000)	**330**	**520**
Depreciation	100	150
Total costs (£'000)	**430**	**670**
EBIT (£'000)	**200**	**350**

* includes £38,000 British Waterways' network access charge for standard marina and £54,000 for marina plus.

3.7 ILLUSTRATIVE RETURNS

Table 6 provides key ratios and financial summary data for the two principal marina investment models.

Table 6: Illustrative Returns

Financial Summary (£'000)	Standard Marina	Marina Plus
Number of Berths	250	350
Total Revenue (£'000)	630	1,020
EBITDA (£'000) Year 3	300	500
EBIT (£'000) Year 3	200	350
EBIT %	32%	34%
Total Investment (£'000)	2,550	3,900
Nominal pre-tax IRR (%)	15%	18%

It must be emphasised that these models are indicative only and are based on reasonable assumptions, which are set out above. Each site however will have its own characteristics ranging from ground conditions and construction methods through planning permission and the degree to which other profitable uses can be incorporated, to mooring rates and other revenue streams. As with all forms of development location is a key factor.

Tables 7 and 8 show the effects on the IRR of different mooring rates (Marina Plus) and land price (Standard Marina).

Table 7: Marina Plus: IRR sensitivity to mooring price

Mooring rate £/metre/annum net	Nominal pre tax IRR
100	12%
110	15%
120 (base case)	18%
130	21%

Table 8: Standard Marina: IRR sensitivity to land price

Land price £'000 per hectare	Nominal pre tax IRR
35	16%
50 (base case)	15%
75	13%
100	12%