

Giving berth

Marina berths have been a proven capital growth performer in recent years but did take a hit during the global financial crisis. What does the future hold for this lifestyle investment? MATTHEW LIDDY

MARINA berths are a relatively cheap investment with minimal maintenance, appealing tax benefits and a recent history showing strong capital growth and rising rental returns. What's not to love?

Well, it's not all favourable winds and smooth sailing in the marina market. For one thing, the global financial crisis has dampened demand for what is ultimately a lifestyle, if not a luxury, investment.

It's difficult to track marina prices and rents across the country; there's no independent source of data. The widest analysis is conducted by *The Midwood Report* but even that only examines the Queensland marina market and relies on self-reporting by marinas.

Midwood's most recent marina analysis, published in February 2009, shows only two of Queensland's 38 marinas recorded capital growth over the preceding 12 months. The value of Hope Island Marina berths climbed six per cent over that time, while Raby Bay Marina berth values rose three per cent.

Gold Coast City Marina was the worst performer, with values dropping 43 per cent, while values at Riverlinks, also on the Gold Coast, fell 33 per cent.

However, those falls were exceptions rather than being representative of the marina market. Most marinas across the state reported flat prices, a solid result given the turmoil in financial markets over that timeframe.

The good news for marina investors comes in the rental department, with rental

rates increasing at the rate of seven per cent to 10 per cent over the 12 months to February 2009, according to the report.

Among some of the substantial commercial Queensland marinas, Gold Coast Marina Mirage and Sanctuary Cove picked up seven per cent rental growth over 2008-09, Scarborough saw nine per cent growth, and Spinneraker Sound rents grew 10 per cent.

Outside the southeast corner of Queensland, the Bundaberg Marina recorded rental growth of 26 per cent and Townsville Yacht Club rents were up 23 per cent.

For potential investors, a fall in values and rising rents obviously presents the appealing

"All of our marinas are currently operating in excess of 90 per cent occupancy, with investor berths currently running at greater than 97 per cent occupancy," Fernance says.

As noted above, it's difficult to get a sense of how prices and rents are tracking nationally but anecdotally it seems other areas have experienced broadly similar conditions to those in Queensland.

Sandy Quin from Quins Yacht Brokerage in Adelaide says there was a real shortage of berths locally about two and a half years ago. Now, she says, there are more berths on the market and prices have stagnated or fallen a little.

"IF YOU THINK ABOUT (IT IN COMPARISON TO) RESIDENTIAL REAL ESTATE, THERE'S NO CARPETS OR WATER HEATERS - YOU DON'T HAVE TO REPLACE A LOT."

prospect of improved yields. Returns across the industry are typically quoted between five per cent and eight per cent. Some berths are offered with three-year rental guarantees as high as eight per cent, though investors should be aware that returns can fall once the guarantee period is over.

Adam Fernance, the general manager of Meridien Marinas, which manages more than 1100 marina berths along the Queensland coast, confirms occupancy levels have remained high.

New supply has come onto the market at Port Adelaide and Port Haven, she notes, coinciding with a fall in demand due to the GFC. Rentals are still in demand, particularly in Adelaide's premium locations, she notes.

"You could make a really good dollar on it a few years ago. You still can but it doesn't sell as quickly," she says.

Property educator Peter Koulizos, who's based in Adelaide, says Holdfast Shores Marina in the prime seaside suburb of Glenelg has outperformed its counterparts.

JOSE KELLY

Marina berth checklist

Questions investors should ask when looking to purchase a marina berth include:

- Is the location in demand from boaties?
- What title would the berth be held under?
- What are the implications of a leasehold investment?
- What services are on offer (eg. electricity and water) and who pays for them?
- Does the marina offer deep-water access?
- Does it offer walk-on, walk-off access to boats?
- Does it provide storage space?
- Is there sufficient, accessible car parking?
- Is wireless internet on offer?
- What security features does the marina provide?

"There's only a limited amount of marina berths at our best seaside suburb whereas there are others up and down the coast that haven't done as well."

Marina Industries Association of Australia executive officer Colin Bransgrove says marina berths have roughly followed the pattern of the wider property market.

"It's come off a period of sustained growth," he says. "Entering into 2009 we've seen some contraction in demand but basically with a shortage of supply the contraction hasn't impacted too negatively on our members across Australia, but they have reported some freeing up of berth space.

"Coming back into summer we've had reports that we're in for a positive (season) in terms of demand and occupancies are starting to tighten again."

He adds, "In Western Australia we've had a significant shortage of berths.

"On the eastern seaboard that's generally the case too. Overall the industry doesn't see that changing much given the challenges facing developers in terms of getting new approvals."

The lull in demand for marina berths in 2008-09 comes, as Bransgrove notes, after a period of strong capital value appreciation.

Midwood's marina berth report from February 2008 noted price growth at the Gold Coast City Marina of 34 per cent per annum since 2002. Horizon Shores on the Gold Coast has shown 31 per cent per annum capital growth over the past six years, according to Resolution Research.

SUPPLY AND DEMAND

Bransgrove says ultimately the marina berth market comes down to supply and demand.

"I think the key factor is the supply and demand imbalance, which as I say is a difficult one to see any improvement for, which from an investment point of view may be considered a good thing," he says.

Midwood author Bill Morris agrees, saying it's extremely difficult to develop new marinas.

"The Queensland Environmental Protection Agency has very stringent environmental policies in place which govern the future development of marinas and recently has rejected a number of applications for new marinas. This creates scarcity in the market. An example is Port of Airlie in the Whitsundays, which took 20 years to gain local, state and federal approvals.

"That's why we haven't had a lot of new marina berths introduced to the market in the last 10 years."

Yet at the same time boat registrations in Queensland are growing at five per cent per annum, Morris says. The state is the boating capital of Australia, with one in 22 Queenslanders owning a boat of some proportions, though not all of them require a marina berth.

Meridien Marinas chief executive Warwick Bible says the number of boaties in southeast Queensland has "exploded".

"The demand for berths is up and there aren't enough available," Bible says. "Boat ownership in Queensland is growing faster than the population and there are at least

200 people in the southeast on waiting lists for marina berths.

"It takes considerable time and resources to build marinas so we would suggest the prices may continue to be pushed up by the lack of supply for some time to come."

The market for marina berths on Sydney Harbour has also been extremely competitive. Bible says there's little room left on the harbour for boaties, driving them north to Queensland's warmer water.

Claudio Marcolongo from LJ Hooker is marketing the Empire Marina at Bobbin Head, 24 kilometres north of Sydney's CBD.

Marcolongo says one large berth recently sold for \$950,000 and another for approximately \$800,000. And these berths aren't on Sydney Harbour, though they do boast access to sheltered waterways in Ku-ring-gai Chase National Park.

The rental situation is even tighter, with about 45 boats on a waiting list for access to the Bobbin Head facility.

"There's a ready barrage of tenants waiting to go in," Marcolongo says, noting the rental yield would be about five per cent on current purchase prices.

"If you think about (it in comparison to) residential real estate, there's no carpets or water heaters - you don't have to replace a lot," he adds.

HOW MARINA INVESTMENT WORKS

Most marina berths around Australia are sold on a long-term leasing basis. In some cases these can be as long as 99 years but more commonly marinas have offered 25-year and 50-year leases.

"Additionally, the trend nationally is for leases to be reduced," says Fernance.

"For example, marinas that were selling leases of 30 years five years ago are now selling leases at 20 years. Similar trends have also been experienced in South Australia, Western Australia and New South Wales where demand for marina berths is outstripping supply."

There are also a very small number of marinas that offer freehold or strata title ownership of berths. This is typically reflected in higher prices.

In Queensland, the only marinas offering freehold berths are Gold Coast City Marina, Hope Island Marina and Riverlinks.

"There are few freeholds because of the need to convert seabed leases into freehold title through the Department of Natural Resources and Water, which requires quite an amount of negotiation," Morris notes.

At the end of an owner's leasing period, they'll often get first right of refusal to extend the lease, although investors will need to read the fine print of their leasehold agreement

carefully to ensure this is in place. A new leasing cost will usually need to be negotiated, though Marcolongo says in the case of Bobbin Head owners have the right to a second lease period at no extra cost.

Regardless of their leasehold status, marina berths have become an investment commodity due to their rental earning capacity and their capital appreciation, Morris says.

In some cases investors can rent their marina berths directly to boat owners, but more often they enter into leaseback arrangements with the managers of the marina, who then manage the berth and its rental to boaties.

Management handles tasks such as rental selection, ensuring the required insurances are held, monitoring the renter, collecting rent and issuing rental statements to the owner.

At most marinas, investors receive rent based on the rental of their individual berth. However, some marinas pool all income from rentals and then distribute those funds according to a formula that takes into account berth size and days available.

In either case, the management company will usually deduct a management fee. Other costs can include body corporate charges, power and water charges, and rates.

Finding finance to purchase a marina berth can be tricky. Some investors have reported having difficulty securing funds through a major lender.

However, Fernance says there's at least one Australian bank that allows purchasers to borrow up to 80 per cent of the purchase price, with the berth as the sole security.

Morris says there's a strong trend towards selling marina berths linked to residential real estate, with developers building marinas alongside waterfront apartments and marketing the two together.

Mark Worth, a director with Colliers International on the Gold Coast, says pairing marina berths with residential property is going one step further these days, as the property doesn't even have to be waterfront.

"In regard to Hope Island, we're marketing dry-block houses that might be sold within a five-kilometre radius and we're actually able to put the marina berth option in with those dry-block houses," Worth says.

"So people when they buy their house for say \$550,000, for an extra \$120,000 they get the marina berth they can park their boat at without having to have a waterfront home.

"It adds value to those properties when they go to resell them."

TAX TREATMENT

Morris says marina berths offer generally favourable tax options for investors.

CASE STUDY | From Sunseeker to profit seeker

CRAIG Menham went looking for somewhere to moor his 55-foot Sunseeker boat and found a new asset class for investment.

Craig has purchased four marina berths. Three of them are purely financial considerations, whereas the fourth has a lifestyle aspect as it houses his boat.

Three of his marina berths are located at Horizon Shores on the Gold Coast and the fourth is at Abel Point in north Queensland.

Craig says he was able to secure finance with an excellent loan-to-value ratio on offer, and has taken up the marina management's guaranteed rental returns for the first few years of his lease.

He believes the marinas he's invested in offer strong future boating traffic and population growth, and is optimistic about his likely returns.

"Once you accept the concept of leasehold purchase, and mine are on 20-year leases, then you look forward to capital growth in that period and the taxation benefits that leasehold offers.

"Obviously, I believe the returns will be strong."

"Taxation treatment of marina berths is similar to residential property except that depreciation is allowed over 10 years or the term of the lease, whichever is less."

Fernance says this equates to the ability to claim back the full purchase price as a tax deduction over the first 10 years of ownership of a berth.

He says marina berths aren't subject to land tax assessment and don't incur stamp duty on the initial purchase, although resales are subject to stamp duty.

Despite what might initially look like a favourable tax environment, property tax specialist Julia Hartman, founder of BAN TACS Accountants Pty Ltd, doesn't believe berths make for a good investment.

Because marina berths are generally a long-term lease, the purchase price "is simply rent in advance", Hartman says.

"All you're looking to profit from is by renting it out short term at higher than the rent you've paid, plus of course the interest you have to pay on your borrowings to pay 25 years' rent up front," she explains. "And don't forget you're also liable for maintenance, body corporate fees and probably management agent fees."

She says while berths do provide large tax deductions during the period of ownership, that will catch up with investors when they sell, especially if they haven't paid anything off the initial loan.

In a financial scenario she sets out (available at www.apimagazine.com.au), an investor looking to sell a marina berth after three years of leasehold ownership would need to sell a 22-year lease for more than they paid for a 25-year lease just to get out of the deal with no real profit.

"You really would have to be betting on the berth increasing a huge amount in value despite the decreasing lease for this to be a

profitable investment, even after the tax benefits are taken into account," she says.

"The odds are already stacked against an ever decreasing right of ownership increasing in value. And if you don't believe me, ask yourself why the marina doesn't just hold onto the berth itself rather than sell the right to it to you for 25 years. Note the marina automatically gets the berth back at the end of 25 years at no cost..."

"The real danger here is that you keep the berth for more than 10 years so you have nothing to reduce the sale proceeds by because you've fully written off your purchase price and you haven't paid anything off your loan.

"It's quite possible that, with less than 15 years left on the (original 25-year) lease, the berth won't be worth enough to clear (your debt) after you pay tax on 50 per cent of all of the sale proceeds because you've fully written off your cost base."

Fernance says historically investors have still been able to achieve good capital growth on resale, even though they're selling an asset with a shorter lease than when they purchased it.

"Traditionally berth prices are increasing on an annual basis," he says.

Some industry figures claim the value of a berth can actually rise as it nears the end of its lease term, because the first right of refusal over the new lease period is worth money if there are no other leases available.

Mark Worth says the resale value of a berth depends on the location and the demand in that particular area at the time, but believes there's definitely the prospect of capital growth even for leasehold berths.

Marcolongo doesn't believe values will drop as the lease term shortens.

"I don't believe that's the way things are going to go along the waterfront. It's going to get dearer and dearer to have a boat on the

water in a marina pen, and the only security of tenure to know that you'll be able to afford to keep your boat there is to have this in place."

WHAT TO LOOK FOR IN A MARINA BERTH

As with residential property, location is particularly important to a good marina berth investment.

"Certainly the demographics of the area are very important (to) getting good clients and good demand," Brangrove says.

Deep-water access is also very appealing to boaties, so investors should look for a marina with access to the ocean or at least "a good body of water", he notes.

On the financial side, Brangrove notes that marinas typically only have a lifespan of about 30 years, meaning they need major reconstruction work after that period of time. Given that lifecycle, "a really good sinking fund is very important", he says.

Investors need to be sure the proper structure is in place "to make sure sufficient funds are being put away for capital improvements that come around not only annually

but when you're looking at a major reconstruction of the marina perhaps every 30 years".

"Another factor is the consideration of prevailing winds 12 months of the year," Brangrove notes. "Some marinas can have great berths look particularly attractive over the summer but in winter there's a prevailing southerly or westerly wind which can create difficulty for those berths."

Investors should also check what services are available at the marina; for instance, does it offer electricity, water, petrol and servicing of boats.

"If you've got all those close by in terms of the benefit to a person who has their boat there mooring it's a lot more attractive if they've got good services in the immediate area."

A walk-on, walk-off marina is more appealing to boaties but is also usually reflected in purchase prices.

Accessible car parking is a very important factor, Brangrove says, citing the troubles of one marina that's struggling because the local council has introduced daily parking fees in

an area where marina members have always parked their cars.

"(They're) having a real battle with their local council on parking, which has made it more and more difficult and that's reflected in a drop in demand for berths."

Worth believes a good berth really comes down to the services that are available and the management.

"Is there a laundry? Is there car parking provided? What sort of security is there? Are there bathroom facilities? Is the management going to be hands-on managing your investment for you?"

Fernance says, "In looking for a good quality marina berth, investors need to make sure it's a cash flow positive, safe, solid investment which provides a strong historical capital growth." **api**

Web special

For a complete rundown of Julia Hartman's assessment of marina berth investments, and a detailed investment analysis provided by Meridian Marinas, visit www.apimagazine.com.au

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