

# Miner & Silverstein, LLP

## Mystic River Marina Market Survey — February 2008

For over 20 years, the Miner & Silverstein Appraisal Company, division of Miner & Silverstein, LLP has appraised over 50 marinas in four states. In order to stay abreast of the marina market and the local sub-markets, periodic surveys of local markets are conducted. In these surveys, marina owners and managers are contacted and asked to participate in a 10-15 minute telephone survey. The survey is conducted with the understanding that the identity of a respondent will not be revealed. To this end, the reporting herein is devoted to addressing aggregate statistics and trends in the local market. The market study focuses on the Mystic-Noank market area.

<b>Towns</b>	<b>Marinas Telephoned</b>	<b>Marinas Participating</b>	<b>Percentage Participating</b>
Stonington	8	7	88%
Groton	10	5	50%
Combined	18	12	67%

### General Comments

Participation was good, but reduced mostly due to the departure of many marina owners for warmer climes to the south.

Boating expenditure is a direct function of the economy and affluence. The uncertainty surrounding the economy's downturn, the continued war in Iraq, and threat of terrorism seems to have reduced optimism in the economic outlook. Marina operators are concerned about their customers' perceptions for the economy and don't see meaningful signs of hope such as the proposed Federal stimulus package.

Boat sales are down for most boats and some marinas hope they will come back next year after the election. The continued era of low interest rates should supply boat owners with access to reasonably priced capital. However, the lack of appreciation in home values limits the frequency at which homeowners can refinance, which has been a major source of large amounts of money in the past.

### *National*

Traditional powerboat shipments, including outboard, stern drive and inboard boats, declined 13 percent on a year-to-date basis through October 2007 in terms of unit volume and 11 percent in terms of wholesale dollars, according to the October 2007 Monthly Shipment Report (MSR) released by the National Marine Manufacturers Association (NMMA).

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## *Connecticut*

Grant Westerson of the Connecticut Marine Trades Association noted the following regarding the State of Connecticut.

- The economy is off and boat sales are mixed. Very large boats sales still firm. Hartford boat show was labeled very good by dealers - some claimed it was the best show ever. One dealer sold over three 30+ foot boats.
- Boat repairs and upgrades, which run countercyclical to new boat sales, are now the focus of boat owners. Those marinas and boatyards who are focusing on repairs are flat-out and there is a shortage of mechanics.
- Statewide, there is still a shortage of slips. There has been no gain in supply in years. Slip rates increases are reasonable. Most marinas are sold-out for the coming summer and waiting lists are growing. Very few marinas are advertising for summer slip rentals.
- Expect a few more boats to stay on land next summer. Expect fewer long trips due to gas prices.
- Health insurance showed a 15-20% increase. Due to slow growth in top line and continued increases in expenses. Marina net operating income is stable to declining.
- The cost of handling power washing waste water is becoming more defined. Treating the water seems to be less viable, even with public sewer available. What seems to make most sense is to build a pad with a sump pump and storage tank (\$15,000-\$50,000) and have the waste water (1 gallon per foot of boat) hauled away (\$0.40 to \$0.80 per gallon).
- The DEP is still militant on dredging. No big dredging projects in the State because there is no cover material available. If federal funding becomes available, the rest of the Norwalk project could be capped with clean material from North Cove in Old Saybrook.

## *New London County*

The local economy, with an unemployment rate at 4.3%<sup>1</sup>, has been healthier than the state and national economies, with unemployment rates of 4.5% and 4.8%, respectively. Local employment increases have been mostly in the gaming industry. Growth will be slow following the completion of a reorganization at Pfizer, a probable bottoming-out of residential construction, and new hiring associated with the MGM Grand opening at Foxwoods. Some longer term increases are expected at Electric Boat, Mohegan Sun and from retail and hotel development around the county. The housing finance crisis has not taken as heavy a toll in the County as those parts of the country that receive a lot of press and inflate the averages.

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<sup>1</sup> CT Department of Labor for December 2007 for New London-Norwich Labor Market Area

## Mystic River

This survey presents actual performance with forecasts for the current winter and upcoming summer. In the tables which follow, we use the following terms.

- **Estimated Capacity** is the total number of slips in the market – the number of slips that would have been surveyed if all marinas participated in the survey.
- **Boat-night** this is the sum of the number of nights that each transient boat stayed at the marina.
- **Turnover** is the percentage of boats that are new to the marina for the season and **Rollover** is the percentage of boats that have returned to the marina for the season. The sum of the two equals 100%.

## Summer

<b>Surveyed Summer Slips</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Estimated Capacity	2,087	2,151	2,155
Slips Surveyed	1,381	1,445	1,445
Percent Occupied	97%	96%	97%
Average Rate/foot of boat	\$100.52	\$104.21	\$108.40
Average Boat Length	33.91	34.50	34.57

<b>Moorings</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Estimated Capacity	442	442	442
No. Moorings Surveyed	234	234	234
Percent Occupancy	93%	93%	93%
Average Rate/LF	\$50.15	\$52.13	\$53.66
Average Length	26.75	26.75	26.72

<b>Transients</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Boat-nights	2,585	2,457	2,533
Rate per LF per night	\$2.72	\$2.75	\$2.86
Average Length	37.11	37.11	37.22

Many mentioned how Summer 2007 had much better weather than Summer 2006 and this brought out the boaters. Seaport Marine and Masons Island Marina have added slips. Summer wet slip occupancy has continued to be high with waiting lists at some marinas. The number of boats docked in the river has increased and occupancy has kept up. This primes the pump for continued price increases. However, slip rates are growing as fast as inflation.

Our survey results demonstrate a stabilizing local market. Consistent with State trends, prices have increased by about 2% per year from 2006 to 2007 and again from 2007 to 2008. With slips nearly full, we might expect prices might continue to increase at a

rapid rate for 2008, but not according to the marina owners surveyed. Most of the surveyed marinas indicated rate increases over the next year will be minimal, passing along only expense increases. Their reluctance to raise prices is because marina owners are trying to retain good customer relations through an economic downturn for the other end of the cycle. However, we do not see a deep downturn and expect that the bottom will have passed in less than two years. As in prior downturns, economic and housing price recovery will be gradual.

Marinas report that the biggest increases in expenses would be for environmental compliance. Some have long added fees to offset such costs while others have recently instituted flat fees on every invoice.

## Winter

<b>Outdoor Winter Storage</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>
Estimated Capacity	2,318	2,478	2,478
Capacity Surveyed	1,808	1,968	1,968
Occupancy	86%	82%	84%
Average Rate	\$36.77	\$37.27	\$38.50
Average Length	34.80	34.18	34.18

<b>Wet Winter Storage</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>
Estimated Capacity	798	848	848
Capacity Surveyed	506	556	556
Occupancy Rate	30%	28%	23%
Average Rate	\$29.50	\$29.83	\$31.33
Average Length	38.19	38.04	37.90

<b>Indoor Winter Storage</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>
Estimated Indoor Capacity	125	125	125
Capacity Surveyed	125	125	125
Occupancy	100%	100%	100%
Average Rate	\$103.00	\$108.50	\$114.67
Average Boat Length	46.17	46.50	46.83

Winter rates show slight improvements in price per foot and occupancy. Wet winter storage had been offered as a low-cost alternative to on-land storage. Generally, the wet winter storage category is not very popular in this market, and in-water occupancy numbers has declined as on-land occupancy increased. Some marina operators expressed their frustration with winter wet slips - they are “not worth the hassle.”

Indoor winter storage is highly desirable. Occupancy has remained high through good times and bad. The per square foot rate for indoor winter storage has continued to increase at a rate close to the rate of inflation. Marinas with indoor winter storage were full.

## Other

In spite of a difficult time in the State's economy, tenant rollover has been quite good with participating marinas reporting in excess of 90% return for both summer and winter. This could most likely be due to some or all of the following: stable local economy, customer satisfaction and the low availability of slips at the current high level of occupancy. Most marinas reported an expectation of being full for the summer 2008 season.

Few marinas offer discounts and the ones that do, are generally year-round discounts with the discount being applied on summer on-land storage. Some of the marinas reported recently ending their discount programs.

Most marina owners are cautious about raising prices even in times of strong demand. Generally, the owners are planning to pass-on only increased expenses to the tenants, with perhaps a modest increase at the rate of inflation.

Seasonal labor costs have been increasing and shortages of qualified mechanics along with increased wages is being reported. One marina reported that the addition of a dealership for service work has added to their bottom line.

Marinas report that the biggest increases in expenses would be for environmental compliance. We expect that the expenses associated with handling power washing waste water will be fully passed on to the boat owner. Some have long added an environmental surcharge fee to offset such costs; recently another marina has instituted a flat fee on every invoice. We expect that as in other businesses, add-on fees for services will increase, particularly as marinas pass-along the cost of handling waste power washing water or provide services demanded by only a few (e.g., surcharge for boats using air conditioners).

The Mystic Point Marina, previously known as Brower's Cove, has applied to dredge. Its owners have proposed condominium units to replace their waterfront mobile home park and possibly to sell the marina to the condo association.

None reported a pressing need to dredge, but looked forward to the proposed dredging of the Mystic River channel to north of the I-95 bridge. Mystic Seaport has spent \$6.4 Million on a new lift dock and needs the channel dredged for access to it. An introductory expenditure of \$187,000 for sediment sampling by the US Army Corps of Engineers is proposed as a first step. For those marinas that need to dredge, it would be opportune to have a permit in-hand when the River is being dredged as capping is costly and capping material is so scarce.

## *Forecast*

It appears we are in a stable local economy. Local employment is generally stable to slightly growing, but the national economy is affecting the state. Reports are that local home prices have increased slightly, but declined in many surrounding real estate markets. This trend will likely find its way into New London County.

The construction industry has been propped-up by casino construction while residential construction lags. The weakened dollar is conducive for more exports, but

portends higher interest rates. The economic stimulus package is not likely to have much impact on boating expenditures.

Marina operators report that some boaters are moving toward smaller runabouts which are less expensive to operate. Many boaters are making fewer trips and keeping larger boats at the dock as “summer cottages.”

Marinas that specialize in larger boats, those that cannot be trailered by their owner, will continue to store boats during the winter. There is no upward pressure on rental rates for in-water winter storage.

Summer slip occupancy should remain high with only modest increases being proposed to tenants. The upside is that fewer advertising dollars are needed when occupancy is near-full. We expect that with occupancy so high, the market could absorb increases when the State and National economies recover.

We expect occupancy rates for indoor winter storage will continue to remain high and would expect rates to increase next winter higher than the rate of inflation.

Marinas appear to be able to pass their increased costs, especially fuel and environmental compliance, on to boat owners, but don't seem to be gaining ground on the net income increases that are necessary for value growth now that capitalization rates have bottomed.