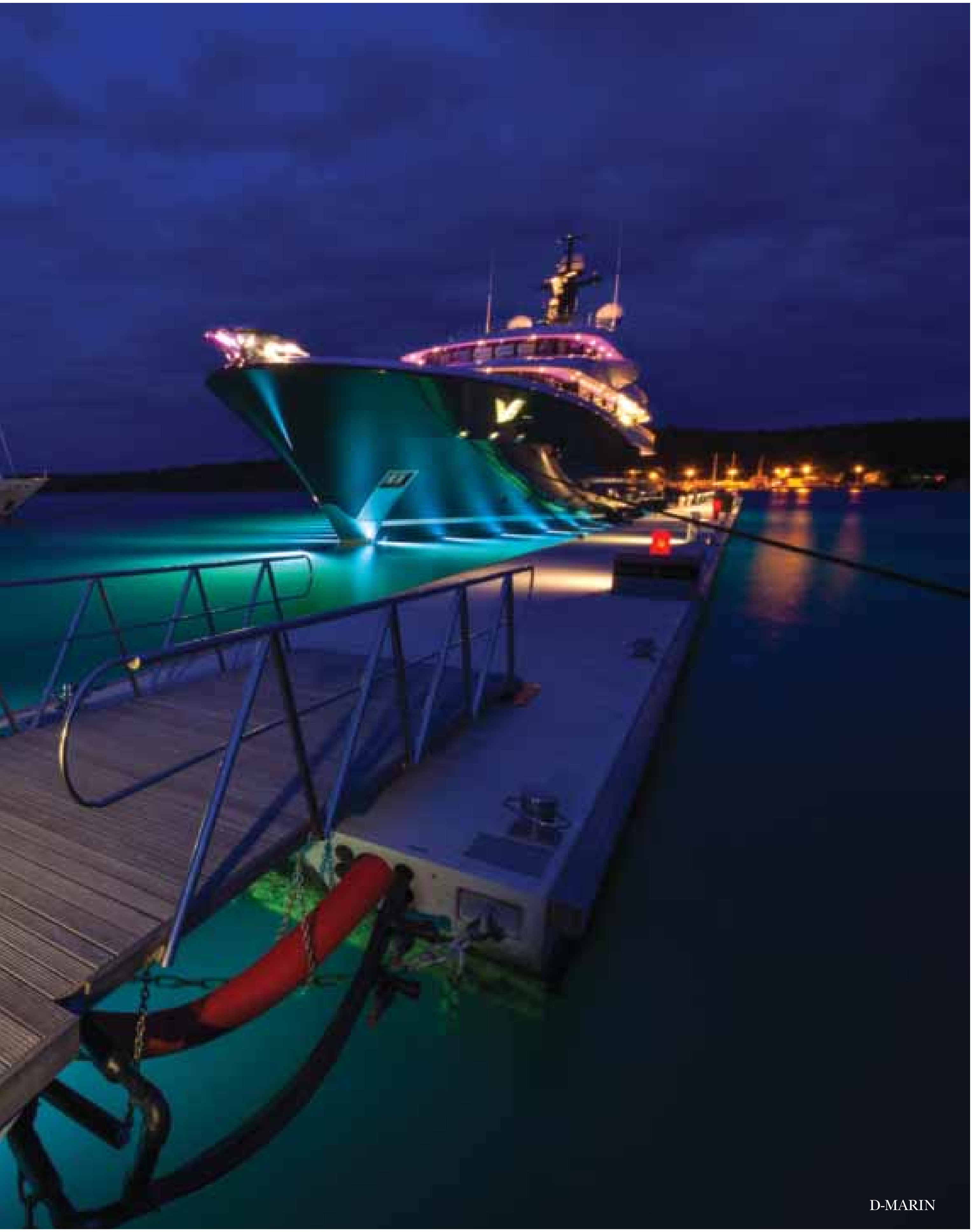
Inviting Investment

Capital-intensive and complicated, the superyacht industry has not always presented an attractive slice of risk-free investment opportunities. While much of the industry may still not have mass investment appeal, marinas have seen a surge of interest from external investors and consequently undergone an evolution of identity. **Angela Audretsch** asks why the marina model is an increasingly encouraging investment.


D-MARIN

There is a buzz in the world of marinas right now. Often coined as 'expensive parking lots', this moniker is now less attributable. Developments that were delayed or affected by the GFC are now thriving or nearing completion, new developments in new locations are being announced and a substantial amount of money is being injected into new and established projects across the world.

What is interesting about this renewed interest is its source. On the one hand we have the familiar marina brands – the C&N Marinas, the IGYs – that have come out of the other side of tough economic times more resilient and more knowledgeable about the market. They know superyachts, they know marinas and they are ready for considered growth. On the other hand there are the new players, the bespoke investment vehicles that are taking on global marina projects with limited (if any) superyacht-specific experience but with knowledge of other areas – UHNWIs, infrastructure, luxury developments – and, crucially, the capital to invest.

"The superyacht sector is extremely high profile and marinas are obviously a part of this," said Martin Bellamy, founder and CEO of Salamanca Group, which has already invested over €100 million in Marina Port Vell (MPV). "At the top end of the market, from 2008 until now, the growth has been exponential, and remains very buoyant today. This has unquestionably driven investment in the sector." With a background in merchant banking, Salamanca is a prime example of the new wave of investors that have been entering the market, bringing with them a new understanding of luxury, marketing and concepts of what a marina should be.

On the surface, marinas are a significantly lower risk than other investment avenues in the superyacht industry. Shipyards, for example, are traditionally high-risk investments; they are light industrial businesses, can be very cyclical and it is difficult to project exactly how they are going to perform. It is hard to forget Star Capital CEO Tony Mallin's tongue-in-cheek comment in the *Financial Times* when the British private equity firm bought Blohm+Voss in 2012: "Luxury yachts are a bit of a graveyard for private equity. It's like buying a golf course; you want to be the third person to own it."

While established marinas do change hands (Qatari Diar purchasing Port Tarraco in Spain, for example), the majority of the movement and investment in the sector, far from being third-hand, is in new developments. Roy Klajman, director of the Sea-Alliance Group, splits marina investment opportunities into two main categories: the marinas that will succeed because they are in a prime location and the marinas that are part of a larger complex because they have to offer much more in order to be a positive investment.

The former is a collective of well-established hubs, where new marine real estate is nigh on impossible to come by and marinas rarely change hands. The latter is where the most opportunities exist. This arena has been attracting the most interest from bespoke investment vehicles, which are often able to offer high levels of expertise in the luxury development and real estate realm. Tom Mukamal, president at Island Global Yachting (IGY) believes that marinas are about to see even more speculative investment from outside the industry. "There is a lot of money chasing a few deals in the US, and arguably even fewer deals in Europe right now," he said. "It gets to a point where these investors start looking at other asset classes."

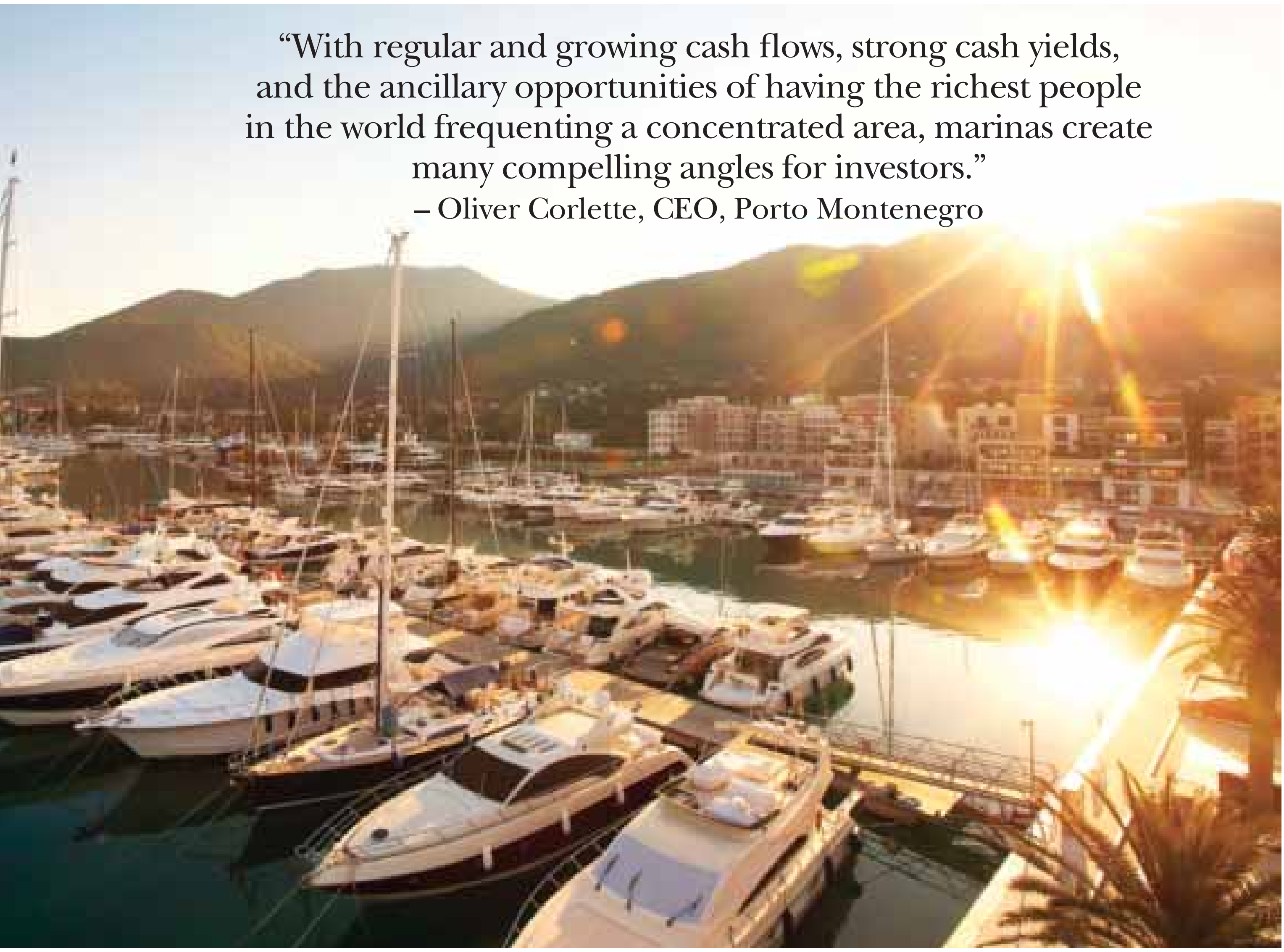
On the face of it, it is easy to put superyacht marinas into the same asset class as hospitality and leisure assets, particularly when you look at the larger developments that incorporate hotels, high-end residences and retail spaces. Indeed, if you look at the investors that are coming into the market, they typically have real estate and hospitality backgrounds. In reality, as assets that offer a fairly clear and regular income, increase connectivity, create jobs and encourage economic growth, marinas might be >>

PORTO MONTENEGRO


D-MARIN

better classed as an infrastructure asset."We certainly look at them as infrastructure assets," said Mukamal, something that Bellamy, Klajman and Porto Montenegro's CEO Oliver Corlette echoed. Ostensibly utilitarian, infrastructure assets have traditionally encompassed everything from energy companies to roads or transmission towers, but marinas, even superyacht marinas, are also infrastructural. This means that as with any asset of this class, investors can expect projects to be long-term, of public interest and politically linked, something that new investors need to be prepared for.

"With regular and growing cash flows, strong cash yields, and the ancillary opportunities of having the richest people in the world frequenting a concentrated area, marinas create many compelling angles for investors."
– Oliver Corlette, CEO, Porto Montenegro



PEARL OF PANAMA

Real estate investment company Dolphin Capital Investors focuses on the residential resort sector in emerging markets, particularly investing in beachfront leisure-integrated resorts in the south-east Mediterranean (Dolphin's primary investment region), the Caribbean and Latin America. Director Katerina Katopis told *TSR* about one of the company's latest investment projects, Pearl Island, a private island that combines luxury hotels and residential units with a marina in one of the first exclusive integrated ecological island resorts in the region.

What was it about Pearl Island that attracted Dolphin Capital to invest?
In 2007, Dolphin was looking to Central America for our next destination. After acquiring numerous coastal properties in the eastern Mediterranean and Caribbean, We identified Panama as a place that we wanted to allocate capital as we predicted the country would go through tremendous growth – owing to the growth of the Panama Canal, the favourable tax environment, the dynamic services industry and unique natural/tourism resources – and consequently capital appreciation for the right coastal sites. The Pearl Islands' archipelago offered an exciting future resort destination to invest in and we found an island called Pedro Gonzalez, the second largest private island in the archipelago. We partnered with the original owner, the Eleta family (Grupo Eleta), acquired 60 per cent of the island and renamed it Pearl Island.

Where do you expect the majority of revenue to come from? How do you ensure profitability?
We believe that the marina will be a key source of revenue as it offers 46 berths in the initial phase of development. When it is later connected to a larger marina, it is anticipated to be among the few, and one of the largest marinas on the Pacific side of the USA, with over 250 berths. However, Pearl Island is being sensitively transformed into a luxurious five-star sustainable hideaway, and the revenue on this development will mainly come from its real estate.

What do you see as the potential challenges in the marina sector?
A mid-size to large yacht marina faces continuous challenges, as there are two major aspects to focus on: the technical part (supplies and utilities) and the leisure and entertainment part. The marina has to provide a good offer to the crew as well as to the owners; the challenge is to balance all these elements in order to create the perfect environment. In our case both, the private 46-slip marina (phase one) and the large 250-marina village, are anticipating these challenges in order for us to be able to always manage a simple solution. The first phase of berths have all been bought by the local market. For the second phase, the challenge is whether there is sufficient prospect to attract more boats, before or after they transfer through the canal, for a lengthy stopover. So far in the region there was nothing similar and as a result boats do not usually spend any more than the minimum time in Panama.


PEARL ISLAND

"It is about relationships and that is not for every investor," explained Mukamal. "One thing that IGY has learned about these assets is that even though they are technically private property, they tend to be viewed as public assets that belong to the community. This can make owning them a lot harder and community as well as governmental support vital."

the local communities look at the facilities as part of theirs so the focus has to be on operating it correctly, working with the local government and bringing the right economic impact to the community," said Mukamal. "Having the money and a local politician who wants to be voted back in only goes so far. You need to be someone who will help the area grow."

> "Large vessels need a lot of service, they need a lot of utilities and they need the berthing, so you've just got to make sure that you are providing a high-quality service at a price that is sensible."
> – Martin Bellamy, founder and CEO, Salamanca Group

Changes in political situations, regulations and the people involved can result in delays and difficulties. Klajman said that Sea-Alliance Group was looking at opportunities in Greece as part of the privatisation process, for example, but this was halted due to the Greek elections. By the same token, governmental cooperation can mean vital support and even legislative changes. The Citizenship by Investment in St Kitts encourages foreign investment in berths and real estate at Christophe Harbour, for example.

"You can have all the money in the world, but

Corlette stressed that, like any infrastructural asset, marinas generate a very predictable and regular cash flow, something that is attractive to any investor. "With regular and growing cash flows, strong cash yields, along and ancillary opportunities of having the richest people in the world frequenting a concentrated area, marinas create many compelling angles for investors," he said. To tap into the consistent revenue opportunities that marinas offer, investors can approach it in two main ways: focus their energy and expertise solely on the water, forming strategic partnerships for the land-

based element of the marina, or become more creative, building and managing an entire marina community.

For most companies with a large portfolio of marina properties, the primary revenue stream is from the berth leasing. "For the majority of our marinas, it is a seasonal game so it is full on for four months of the year," said Kenny Jones, vice-president of operations at IGY. "We seek to be involved in projects on a water-only basis because then we are not relying on selling anything else other than our core competency. For us, it doesn't make sense to be multi-disciplinary across a large portfolio. You can do this well with a single asset but it is not as easy across a whole portfolio."

> "A more service-oriented approach is required, which resembles more the service of a hotel rather than the traditional mooring facility we used to see 10 years ago."
> – Liza Singer [above], owner's representative, Karpaz Gate marina

Being 'water-based' doesn't mean that IGY is oblivious to the importance of a land counterpart to the marinas. The company likes to be part of the whole picture, ensuring that it invests in and manages marina properties that will be part of a cohesive community. One of IGY's latest projects, North Cove Marina in New York's Battery Park City is a good example of this. As marina partner with real estate giant Brookfields Property Partners, IGY will lend its experience to the small basin marina, ensuring that it has the right infrastructure and becomes part of the Battery Park City development. "We bid on it together with Brookfields; our marina experience gave them the credibility to actually win," said Jones, who explained that they will move forward and redevelop the marina. "Brookfields have invested $200 million in a convention centre upland already," added Mukamal. "Partnering with someone who will invest in the upland while we manage the marina investments makes sense."

With experience in property acquisition and development, an increasing number of companies like Brookfields are stepping into the marina realm. Some prefer to stand back, partnering with companies like IGY, focusing solely on the land side; however, many have come in on their own and have consequently adapted and diversified the marina model.

"Making your income streams diverse is obviously attractive to an investor," said Bellamy. "If you look at what the large vessels need; they need a lot of service, they need a lot of utilities and they need the berthing, so you've just got to make sure that you are providing a high quality service at a price that is sensible." Superyacht marinas that provide utilities, refit and service options, crew amenities, residential and hospitality developments, particularly in new destinations, not only widen their income streams but also create communities that attract owners, guests, crew and, crucially, potential owners. By widening income streams, the market will naturally widen as well.

"Investors in alternative destinations need to raise the bar by putting money into the quality standards of their assets, offering wider attractions to superyacht owners, crew and their guests," said Artun Ertem, D-Marin's regional director and marina manager at Croatia's Mandalina marina. The D-Marin Marina Group, part of Doğuş Group, one of Turkey's largest investment conglomerates, has 10 marinas across Greece, Croatia and Turkey, and diversification has been integral to their success. Most recently the company has invested €40 million into the D-Resort Šibenik next to Mandalina marina, which includes a hotel, three executive villas, a spa, fitness centre, retail and dining units, kid's club and swimming pool. Liza Singer, owner's representative at Cyprus' Karpaz Gate marina, said that investing and paying significant attention to the berthing packages, maintenance and service, and hospitality has been key to their strategy. As well as building the marina, the €70 million invested to date has been injected into the shoreside facilities; a 18,000sqm dry dock and storage area with workshops and a 300-tonne travel lift; leisure facilities; restaurant; gym; art gallery; watersports centre; Mephisto Diving Centre; and children's play area. "There is more competition today and a great deal of experience among clients and crew," Singer added. "All of these factors mean that a more service-oriented approach is required, which resembles more the service of a hotel rather than the traditional mooring facility that we used to see 10 years ago."

Dolphin Capital Investors, a company that focuses on high-end beach property development and has over 63 million sqm of property under development across the world, including projects in Panama, the Dominican Republic and Greece, would agree. With 14 major projects in its portfolio, including five marinas, it is very much representative of the new wave of investment vehicles that are bringing a new hospitality-focused edge to the marina world.

"For us, the high end, usually branded, real estate is the key element in each one of our developments," said Katopis. "Nevertheless we always include a leisure component and special facilities in order to make the destination more attractive, create a community feeling and provide our clients with everything they might possibly desire." Marinas become a part of the wider luxury communities that Dolphin Capital offers alongside golf courses, spas, tennis and equestrian centres, boutiques and high-end hotels. Katopis said Dolphin Capital's approach has long term appeal: "Not only does the value of the properties we sell increase, but also our clients look into buying for the longer term and wish to be part of a thriving community."

Bankrolling a marina may be less risky than financing a shipyard, but as an investment venture, it is clear that it is far from a straightforward real estate or hospitality investment. "Marina investments are very difficult," emphasised Corlette. "These are large investments in water-front property with deep water, close to international airports and attractive cruising grounds. To satisfy these objectives requires not only very significant capital but also many years to secure the land, permits and permission. In this sense, the growth of more marinas is going to be slow and complex." For investors willing to put in the capital and the time, there are not only a lot of opportunities to enter a unique realm, but also to add something to the conversation. "There is a chance right now for the industry to open itself up to a broader audience," said Bellamy. "New investments and new perspectives are only a good thing for everyone and it will be interesting to see the innovative ways in which new clients can be attracted to becoming a part of the industry." ■

TO COMMENT ON THIS ARTICLE,
EMAIL: *ISSUE162@SUPERYACHTREPORT.COM*
WITH SUBJECT: INVITING INVESTMENT

THE FULL INTERVIEWS ARE AVAILABLE ON
SUPERYACHTREPORT.COM/EXTRAS

For investors willing to put in the capital and the time, there are a lot of opportunities not only to enter a unique sector, but also to add something to the conversation.