

BUSINESS CASE FOR MARINA

LOCATION: Lot 519, DP 729020, Brisbane Water Drive, Koolewong

APPLICANT: Gemsted Pty Limited

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Background

The Applicant originally took up the lease on the site in 1988 and commenced construction works in 1990. A two storey commercial building was completed in 1991 but due to various local government regulations, the property was not in a position to commence generating revenue until September 1999.

The lease was renewed for 20 years in 2006.

In 2001, the Applicant determined that there was very little access to jetties on the Koolewong side of the Brisbane Water. As a result, and after having satisfied all environmental and governmental requirements, a 25 metre wharf was constructed. The addition of a publicly accessible jetty has provided the following benefits to the community:

- The commercial anchor tenant of the building (a restaurant) has been able to offer the use of the jetty for wedding parties as well as obtaining an additional source of revenue from ferry patrons deciding to have a meal break,
- The local charter boat and ferry operator is able to offer various functions (eg. Weddings) being held on the vessel with the catering provided at the end of the function at the Restaurant,
- Recreational boat users are able to access the restaurant facilities

The flow-on social and economic benefits as a direct correlation to the implementation of the wharf made it apparent to the Applicant that there is a serious lack of walk on walk off mooring facilities on the Brisbane Water.

There are 1,173 private moorings located in 29 locations including 15 locations with 796 moorings in the 'Broadwater' section of the Brisbane Water. The Koolewong/Murphys Bay area has a waiting list for moorings because of its protected position.

Accordingly, the Applicant concluded that the site was ideal to establish a marina as an extension to the existing jetty. Due the design of a more efficient parking layout and a review of the calculations relating floor area of the restaurant, the number of car parks can now support a 50 berth marina.

In order to establish the foundations of developing the marina, a NPV (net present value) analysis was performed over the remaining tenure of the lease (annexure A) for the whole site. Due to the reconfiguration/recalculation of the car parking area and the subsequent increase in the number of berths allowable, the cost of construction of the marina has increased, which means that the financial risk of the leaseholder is greater.

The Applicant has determined that a rate of return (ROR) on investment of 20.0% is now desirable (previously a ROR of 13% was acceptable). The NPV calculations show that based on a lease term of 25 years, the return is estimated at 15.4%. It is estimated that the marina installation will cost approximately \$1.93 million. However, at the end of the lease period there is no guarantee that the Applicant would be treated favourably for a new lease, hence the higher ROR requirement.

Comparing this investment with an investment in freehold land giving a net 10% return (commercial properties have been selling for this return in the local area of recent times), at the end of the lease period for the latter, the Applicant would still have the freehold property to sell.

On this basis, the Applicant is seeking an extension of the lease period from the 25 years that you have mentioned to 40 years.

The Case for Change

Whilst there are numerous swing moorings in the Brisbane Water, there are only four small marinas servicing the whole of the Brisbane Water. Of those, three are in the southern part of the Brisbane Water, not far from Pittwater. Only the new marina at the Gosford Sailing Club services the northern part of the Brisbane Water.

Despite this, the demand for permanent mooring facilities in a marina environment is growing. When the Gosford Sailing Club constructed its 29 berth marina approximately two years ago, the berths were very quickly snapped up and there is a waiting list for berths to become available. These berths were only offered to Sailing Club members and not the general public. The berths at the Applicant's marina would be available to the general public.

There is a general shortage of storage facilities for boats in NSW. NSW Maritime is sufficiently concerned that it has appointed an independent firm to prepare a comprehensive Boat Ownership and Storage Study for NSW. The aim of the study is to *outline the statistics and demographics of current boat ownership and storage and forecast future demand for both quantity and types of boat storage, based on local, national and international trends and population and economic forecasts.*

The study will build on existing work and examine issues such as vessel ownership numbers, storage trends, increasing waterway usage, regional demographics, changing vessel types, permissible structures and planning controls. The study will also detail current and forecast demand for boat storage on different waterways including potential regional demand for on-water storage, dedicated dry stack storage facilities and boat ramps.¹

This study is due for publication in October 2009 but has not been released at the date of this report. However, given that NSW Maritime is sufficiently concerned as to the adequacy of boat storage in general to commission the study, and the fact that there are waiting lists for moorings (particularly in the area of the proposed marina) it is likely that the report will show that there is inadequate boat storage in NSW.

In addition, the NSW Maritime Corporate Plan 2009 – 2012 identifies one of its organisational priorities as:

Maritime Infrastructure – *improve public access to waterways, including access for people with disabilities, ensure safe public ferry wharves, and encourage and promote maritime precinct developments which meet community expectations and help create maritime related jobs²*

The priority action areas identified in the NSW Maritime Corporate Plan 2009 -2012 include:

Maritime Infrastructure

- *Work with Local, State and Federal governments to support the retention and expansion of working harbours with vibrant commercial and recreational boating sectors*
- *Ensure planning instruments and policies have regard for the community's need for maritime infrastructure and cater for ongoing growth in boating and water sports*
- *Review property and planning policies, procedures and instruments to support working harbour and boating infrastructure needs and reduce red tape and duplication*
- *Identify new maritime site/infrastructure opportunities*

¹ www.maritime.nsw.gov.au > what's happening

² NSW Maritime Corporate Plan 2009 - 2012, page 5

- *Ensure safe public ferry wharves across the State*
- *Work with the community to improve passive boating facilities³*

The lease site is located approximately half way between Gosford and Woy Woy. The area is predominately residential with very little commercial activity. The existing restaurant along with the offices and marina facility will provide employment opportunities for an area which has virtually no other commercial activity. The marina will also provide the opportunity for marine related jobs, one of the Governments stated objectives.

³ NSW Maritime Corporate Plan 2009 – 2012, pages 8-9

Information about the Proposal

The Applicant proposes to construct a 50 berth marina, providing for various size berths from 10 metre to 25 metre. There are no other marina facilities on the Central Coast that can accommodate larger vessels. There is a demand for such larger vessel accommodation locally which makes this proposal attractive.

Due to constraints from available parking it is not possible to build a bigger marina, even though the area is in desperate need of marina facilities. Essentially, it will be a 'lifestyle' marina. However, despite this, the design of the marina will be such that there is a 124.5 metre pontoon that will be available for public access.

The proposed marina will be constructed with a modern floating system that respects the new ambience and services that are incorporated into modern marina arm design. An existing car park surrounding the commercial building will be re-configured to provide additional parking to meet the requirements of the local council and Australian Standards.

The outer marina arm will be in the deepest part of the northern region of Brisbane Water which makes it an ideal location for access by vessels with deep draughts. There is no other deep draught public access facility in the Brisbane Water. The public access jetty and the visitors wharf at Gosford which are both owned by the Gosford City Council will only permit shallow draught vessels to be berthed. In addition, that jetty has a 20 minute time limit and the visitors wharf is only for temporary stays by visiting vessels. Locally owned vessels are not permitted to remain at either of these locations.

Due to the depth of the water at the proposed marina and the proximity to the Gosford District Hospital, the Applicant's marina will provide easy access for emergency services. In recent years, the main Central Coast – Sydney highway has been closed a number of times by fires, sometimes for days. The only way to and from Sydney was via the water but the wharves at Ettalong and Patonga could not cope with the demand from potential passengers. The water is too shallow at Ettalong to allow deep draught vessels to berth.

In times of other emergencies when residents had to flee by water, there were no jetties or wharves with sufficient water depth to allow large vessels to manoeuvre to berth. The proposed marina site at Murphys Bay/Koolewong is protected from the southerly and westerly winds which cause other water access points (eg public wharf at Gosford) to be dangerous. This is the main reason why there is currently a waiting list for mooring in this area.

The proposed marina is located on Brisbane Water Drive, one of only two access roads to the Woy Woy peninsular. In recent years, the other access road (Woy Woy Road) has been closed by fire and landslip, making Brisbane Water Drive the only way in and out of the peninsular. In fact, the recent landslip meant that half of the road was closed for a period of approximately 6 months.

If a fire or other emergency had occurred during the time of this road closure, Brisbane Water Drive alone would not have coped with both the exodus of residents and the arrival of emergency services. A marina with deep water depth and an area that will give large vessels the ability to easily manoeuvre would give residents of the peninsular an escape route. Whilst there are a number of private jetties in the Brisbane Water, they do not have deep water access which means that only shallow draught vessels can access them.

The existing jetty is only 1 metre wide and does not have a T section. It is therefore unsuitable for deep draught vessels to access in an emergency. The lack of a T section means that loading passengers could not be done safely or efficiently in a time of crisis.

Financial Appraisal

Refer to Annexure A for the cash flow projection and net present value (NPV) analysis.

General

In determining the berthing fees receivable, an average of the fees currently being charged by other marinas within the local area has been taken and the generally accepted vacancy factor of 13% has been applied.

At present, the upstairs office area is not currently leased, mainly as a result of two contributing factors. The first factor resulted from the time taken to renew the existing lease back in 2004 - 2006. Many of the tenants who were previously renting office space on the first floor needed assurances going forward that they could secure a long term lease. The head lessee was unable to provide any assurances about future occupancy until the lease was renewed in 2006 so the businesses sought alternative office premises that could provide security of tenure.

The second factor was a result of the change in economic conditions which has been experienced over the past 2 years.

The Applicants believe that once the marina project is completed, the upstairs office area will be highly sought after, as at present there is no office space available for marine related activities on the Brisbane Water itself. Also, the fact that the Brisbane Water does not have any other commercial premises available for lease at a marina or close to the water will give the Applicant a distinct advantage.

As previously advised, there is virtually no other commercial activity in this part of the Brisbane Water which gives the development a further uniqueness.

EBITDA

The Applicant has had a positive EBITDA for the past five fiscal years. However, the completion of the marina will deliver a much stronger EBITDA as evidenced by the projections in Annexure A. In fact, after the marina comes on line in 2011, EBITDA increases by 1025%.

Going forward, EBITDA continues to rise. Post marina completion EBITDA increase projections are as follows, using 2010 as the base year:

- | | | |
|-------------------|---|-------|
| • 5 years (2015) | - | 1103% |
| • 10 years (2020) | - | 1350% |
| • 15 years (2025) | - | 1235% |
| • 20 years (2030) | - | 1751% |

Net Present Value (NPV)

The net present value calculation has been performed on the entire site and not just the marina. It is expected that the marina will cost \$1,934,620 to complete, including re-configuration of the car parking area. Additionally, there is \$852,378 of undepreciated capital costs incurred on the original lease site that need to be applied over the remaining period of the lease. The total capital outlay for the purposes of performing the NPV calculation is therefore \$2,786,998.

In performing the NPV analysis on the advised lease term of 25 years at a rate of return of 20.0%, there is a negative return on the investment. A positive return on the investment is achieved at a rate of return of 15.4%. Given that this approximates the current cost of long term finance and interest rates are set to rise, there is not a great incentive to make the capital investment, particularly given that there is no asset to sell at the end of the lease term.

However, if the term of the lease is extended by a further 15 years to take the term up to a 40 year life, whilst the desired rate of 20% still shows a negative return on investment, the project gives a positive return at a rate of 17.22%.

At the end of the lease period there is no guarantee that the Applicant would be treated favourably for a new lease. Comparing this investment with an investment in freehold land giving a net 10% return (commercial properties have been selling for this return in the local area of recent times), at the end of the lease period for the latter, the Applicant would still have the freehold property to sell.

On this basis, the Applicant is seeking an extension of the lease period from the 25 years that you have mentioned to 40 years. This will not put them in the same position as if they invested in freehold property, but will give them a longer period to recoup their initial investment.

The Applicant is concerned that for the capital outlay required to provide this important public facility, the return over a 25 year lease period may not be sufficient to proceed. Accordingly, the Applicant seeks to increase the term of the lease from 25 to 40 years which would make the project more economically viable.

Conclusion

The Applicant has consistently demonstrated through its development of the original lease site that it has the financial and commercial capacity to both meet the capital costs of developing the marina and to fulfil all future obligations to the Crown such as rent, security and maintenance of the lease site. It has already demonstrated its commitment to the Crown and the lease site through the existing development of the lease facilities and this will continue.

The Applicant's previous experience, its strong financial foundation since the original grant of the lease and going forward, and the level of capital investment previously undertaken, make the Applicant the logical choice to develop and operate this much needed Marina.

ANNEXURE A

Prepared: 24.8.10

24/08/2010

GEMSTED PTY LIMITED**PROJECTED COSTS FOR MARINA CONSTRUCTION****LOT 519, BRISBANE WATER DRIVE, KOOLEWONG*****Capital costs of construction:***

Pre approval costs	6,620
Marina jetties with 50 berths	1,293,000
Pump out facilities	15,000
Water, 3 phase power	5,000
Water tank	10,000
Consultancy, legal, accounting, surveys, architect, DA & council, environmental study	300,000
Reconfigure parking area	75,000
Widen jetty	35,000
Security gate & camera	15,000
Ramp	20,000
Fire hydrant	150,000
Contingency	10,000
Total estimated construction cost	<u>1,934,620</u>

Original building costs, undepreciated

Buildings	672,769
Jetty	8,589
Landscaping	11,230
Lease & permissive occupancy	159,790
Total undepreciated capital costs	<u>852,378</u>

TOTAL CAPITAL OUTLAY FOR NPV CALC**2,786,998**

GEMSTED PTY LIMITED

Projected Berth Income

12

	10m	12m	14m	16m	18m	20m	25m	Annual
1	580							6,960
2	580							6,960
3	580							6,960
4	580							6,960
5	580							6,960
6	580							6,960
7	580							6,960
8	580							6,960
9		680						8,160
10		680						8,160
11		680						8,160
12		680						8,160
13		680						8,160
14		680						8,160
15		680						8,160
16		680						8,160
17		680						8,160
18		680						8,160
19		680						8,160
20		680						8,160
21		680						8,160
22		680						8,160
23			780					9,360
24			780					9,360
25			780					9,360
26			780					9,360
27			780					9,360
28			780					9,360
29			780					9,360
30			780					9,360
31			780					9,360
32			780					9,360
33			780					9,360
34			780					9,360
35				880				10,560
36				880				10,560
37				880				10,560
38				880				10,560
39				880				10,560
40				880				10,560
41				880				10,560
42				880				10,560
43					980			11,760
44					980			11,760
45					980			11,760
46					980			11,760

47		1100		13,200
48		1100		13,200
49			1300	15,600
50			1300	15,600
Annual berth fees based on full occupancy				<u>471,360</u>
Vacancy rate				<u>61,277</u>
				<u>410,083</u>
Per month berth fees				<u>34,174</u>

MAINTENANCE COSTS

	Current \$	Future \$ @ 3% CPI	
<i>Maintenance costs:</i>			
Maintenance - Marina			
General maintenance & ropes	10,000 pa	10,000	
- Year 4			
- Year 5 (jetty deck)	5,000	\$5,791.06	cleats etc
- Year 10 (jetty deck)	5,000	\$6,708.12	cleats etc
- Year 15 (incl jetty deck)	80,000	\$124,618.79	replace deck
- Year 20	5,000	\$9,003.69	
- Year 25	5,000	\$10,432.43	
- Year 30	80,000	\$194,133.42	
- Year 35	5,000	\$14,008.85	
- Year 40			
Total ongoing maintenance	<u>185,000</u>		
<i>Additional estimated expenditure over term of lease</i>			
Maintenance - Building			
- General	5,000 pa	5,000	
- Year 2 (repaint roof)	15,000	\$15,911.47	
- Year 5 (bathrooms etc)	20,000	\$23,180.17	
- Year 6 (repaint & replace guttering)	25,000	\$29,844.84	
- Year 14 (repaint etc)	15,000	\$22,671.76	
- Year 20	10,000	\$18,034.24	
- Year 23 (repaint & repaint roof)	30,000	\$59,175.14	
- Year 29	15,000	\$35,303.26	
- Year 31 (repaint & replace guttering)	25,000	\$62,452.01	
- Year 35	15,000	\$42,147.47	
Total additional maintenance	<u>170,000</u>		
Total maintenance		<u>15,000</u>	

GEMSTED UNIT TRUST**PROFIT AND LOSS STATEMENT (ACTUAL)**

	2010	2009	2008	2007	2006	2005
Income:						
Rent & outgoings	98,096	103,512	95,103	93,108	87,347	87,563
Rent outstanding	10,919	-	-	-	-	-
Interest received	1,794	1,501	998	-	-	-
	110,809	105,013	96,101	93,108	87,347	87,563
Expenses:						
Advertising	-	-	15,074	-	-	-
Bank charges	146	163	171	180	181	176
Cleaning	6,660	6,425	7,080	6,161	7,246	4,794
Electricity	1,095	1,290	1,623	1,386	1,114	1,207
Fees & permits	-	-	-	332	337	624
Filing fees	212	212	212	212	212	212
Insurance	14,362	14,280	14,050	14,213	13,720	12,900
Land tax	7,848	13,283	10,869	-	-	-
Lease costs	10,522	10,279	2,146	14,870	7,409	6,478
Legal fees	-	409	900	3,462	8,269	11,250
Management fees	12,000	12,000	12,000	12,000	12,000	12,000
Printing & stationery	-	-	60	1,220	66	4
Professional fees	8,356	2,862	3,300	5,086	950	1,440
Rates	4,600	4,381	4,052	3,357	3,608	3,917
Repairs & maintenance	8,857	3,433	4,557	16,110	5,280	3,980
Security	260	3,902	4,204	4,066	4,298	3,566
	74,918	72,919	80,298	82,655	64,690	62,548
EBITDA	35,891	32,094	15,803	10,453	22,657	25,015