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Melbourne | Sydney | Perth | Adelaide | Brisbane

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**PRIVATE & CONFIDENTIAL**

The Board of Directors  
Marine Queensland  
PO Box 3305  
TINGALPA QLD 4173

Dear Sirs

**REPORT ON SUSTAINABLE RENT LEVELS AND LEASE TERMS**

In accordance with our instructions Pitcher Partners NSW Corporate Pty Limited (“**Pitchers Partners**”) has developed, in conjunction with the Boating Industry Association of Queensland Limited (“**Marine Queensland**”), a model to assist in determining the levels of sustainable rent that can be levied against holders / operators of concessions for Queensland Marinas (or “**concession holders**”) over the reasonable lifetime of the physical facilities of those Marinas.

A “concession” is defined by the Macquarie Dictionary as “something conceded by a government or controlling authority, as a grant of land, a privilege or a franchise”. **Concession sites** are wet and dry land properties owned by various Queensland Government departments or authorities (“**the authorities**”), and provided by way of concession lease for the operation of marina facilities, subject to restrictions on permitted use. These concession sites are provided to private sector and not-for-profit tenants in order to provide infrastructure and community facilities.

This report sets out the findings from and commentary on the implications of our analysis and industry research. Appendix 1 contains details of the inputs and operations performed by our financial model, together with supporting information and schedules of financial data and results from the financial model.

Since Pitcher Partners were engaged by Marine Queensland to provide financial analysis and support with commercial negotiations, we have been informed that various assets, including the concession site of some of your members, are to be transferred from the current owner, the Port of Brisbane Authority (“**POB**”), to the recently merged Queensland Department of Transport and Main Roads (“**QT**”). The Queensland Department of Environment and Resource Management (“**DERM**”) is the concession provider to some members, while part of your other members’ rent is

collected by other authorities on behalf of DERM. As this asset transfer is in transition, we have included POB when referring to “the authorities”.

QT have informed Marine Queensland that the department is preparing its policy position for marinas in readiness for the takeover of POB concession sites. Marina owners and operators across the State are concerned that the aggressive position taken by the POB ahead of privatisation will impact on the QT policy, and in turn, will eventually be reflected in the rent review and methodology adopted by other Queensland authorities and by QT for their existing 5 boat harbours.

We have prepared this paper to assist Marine Queensland in participating in the development of a policy which supports sustainable development for the recreational boating industry in Queensland. To this end we set out the key elements which need to be addressed by a commercial marina policy in order to provide certainty to investors and financiers that concession rentals will be set at a sustainable level, to promote international best practice, and to provide fairness and consistency to all Queensland commercial marina concession holders.

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## EXECUTIVE SUMMARY

Pitcher Partners has analysed the operating performance of a selection of marinas in Queensland and have run various sensitivities to test the impact of changes in the rate of licence fees or rents applied to turnover to determine a framework for the calculation of a sustainable rent payable by the marina concession holders under a normal range of economic and commercial conditions.

Our comments on the level of rent which is sustainable are made with due consideration of the policy environment under which marinas operate, which requires the maintenance of public amenity to the State’s waterways by way of access to the foreshores, quality marina and waterway facilities and general public facilities, such as fuel access points. Alternative uses of the marina sites may generate greater rents for the authorities, but would not provide public amenities.

Our analysis demonstrates that the recent escalation of concession rentals (actual or proposed) based on alternate use valuations (such as high rise waterfront residential) have raised rentals to levels which are not sustainable. Further, the methodology of setting rentals using site values which are unrelated to either the concession site zoning, or to the economic performance of marinas, creates the kind of uncertainty which inhibits marina investment.

We have identified clear exceptions where some authorities, after receiving representations from concession holders, have reviewed concession rentals using methodologies which did take into account actual permitted use of the site and other concession lease restrictions. In these cases the authorities have settled on a concession rental at a level which our modelling indicates is sustainable.

Following our detailed analysis and review, Pitcher Partners recommends that authorities prepare and publish a commercial marina policy to be adopted consistently

across Queensland. The essential elements of such a commercial marina policy involves the adoption of a formula for the calculation of marina rents which provides:

1. Certainty to marina concession holders;
2. Compliance with the Government's waterways access policy and public amenity objectives;
3. Returns based on marina turnover payable to the authorities, with exposure to upside earnings of such facilities, whilst providing adequate returns to the concession holders, including sufficient funds to cover the maintenance, refurbishment and rebuilding of marina facilities over the investment life cycle;
4. A system which is simple to administer for the authorities, has low compliance costs for the concession holders and minimises disputes between all parties;
5. A system which recognises the various wet and dry lease area ownership structures and encourages complimentary development on contiguous freehold land through a policy of sharing the concession rental with other government or private sector investors who commit freehold land for wet or dry lease marina activities; and,
6. The ability for concession holders to raise finance using only the marina business as security.

Our analysis demonstrates that certainty is required in regards to the following key factors:

- Lease concession terms - are generally inadequate to support optimal, sustainable development for Queensland marinas as commercial service enterprises recognising the considerable public benefit and community amenity provided by the marinas.

A standard term for a new marina concession or major re-development needs to be flexible, but the investors would require 40 to 50 years. If no change is to be made to the current common policy, under which no capital compensation is provided on cessation of the lease for the unrecovered value of improvements, then shorter terms than 40 years are just not viable.

Where there is no immediate re-development planned, we are recommending minimum 25 year renewal terms, with extensions to at least 40 years to encourage mid-term major upgrades, re-building or refurbishment of marinas.

- Concession rentals need to be linked to economic performance of the marina. We recommend adoption of world best practice linking concession rentals to marina revenues. We are recommending concession rentals set at 6% of turnover so that the authorities receive a return which escalates with real

berthing rates and automatically receive an additional return on further revenue generating development paid for by the concession holder;

- That rentals above 6% would require policy and resource allocation as the marina industry would:
  - i. Require external support in the early stages of the investment cycle when the capital investment is at its maximum after re-development.
  - ii. Require external support during any economic downturn period which is severe enough to cause revenue growth to be at less than 1% above CPI for even just one year; and,
  - iii. Require external support to enable a marina concession holder to maintain, improve and build infrastructure.
- Exclusion from tollable revenue of the turnover derived from public amenities and uneconomic services such as fuel depots.

The model supports the view that some flexibility needs to be retained for special circumstances such as starts ups in regional tourism and growth areas and where the provision of community facilities is a key aspect of the overall project.

This paper provides the justification for calculating rent based on revenues or turnover of the marina business.

The model is designed to provide a simple tool to calculate an appropriate percentage of revenue to be levied as rent for any marina, using financial data from the marina and testing sustainability of rent against a range of economic conditions.

We note that sustainability of the marina operations relies on certainty of contract terms, particularly tenure and the level of major heads of expenditure, including rent.

It is our recommendation to Marine Queensland that they seek certainty with respect to the methodology by which the rent is to be calculated and the length of concession terms to be granted. If these two outcomes are achieved with long term certainty, Pitcher Partners experience indicates that the marina business itself may be able to be used as the primary bank security for the long term debt raised for the purpose of acquisition and development of the marina facilities.

Finance institutions have advised that the full market value of many marina businesses in Queensland is not accepted as security against direct funding. This factor reduces the investment capacity of many potential operators and increases hurdle rates due to the inability to gear the investment. If the concession agreements and rental formulae were certain, and hence more "bankable" we consider it possible that banks may lend in the range of 50% to 60% of the cost of the marina acquisition and development costs at the point of highest investment (that is, immediately after a redevelopment, provided that the remaining concession term is a minimum of 50 years).

## Background

Marine Queensland approached Pitcher Partners to analyse and report on the rental policy of the authorities and to make an assessment as to whether the current approach produced sustainable rentals. Some Marine Queensland members, who are marina concession holders, had reported concession rental rises out of all proportion to the economic performance of their marina business.

Particular issue was taken with the POB rental rises which members felt was profit driven ahead of the privatisation sale of the POB. Marine Queensland members advised us that they believed their concession rental increases were higher than for other authorities, and that other authorities had been more willing to negotiate terms which reflect the actual concession site permitted use.

Other members however expressed a concern that their experience was that other authorities were tending to follow the approach of POB in their lease negotiations and rental reviews.

We were requested to provide financial analysis to identify the impediments to further development and to address the issue of whether the marina business continued to be viable at the new levels of concession rentals which were being applied by the authorities.

In the preparation of this Sustainable Rent Report, Pitcher Partners analysed the operating performance of 5 marinas of varying sizes, location, service mix and customer demographics. The modelling completed was extensive and took into account assumptions which reflected the industry standards.

We also reviewed the methodology currently used by the authorities in setting concession rentals, and various optional methods proposed to participating marinas and other Marine Queensland members. We found that there was no published policy or consistently applied policy for setting concession rentals between authorities or even within the authorities we reviewed. Concession lease terms and conditions, including the formula for setting and reviewing concession rentals, had developed spasmodically over decades. The result appears to be a piecemeal approach to concession approvals, lease terms and rental reset mechanisms administered by different bodies.

A common element in the recent reviews appears to be a move towards setting rentals based on 'market value' of the unimproved concession site based on the highest alternative use value, rather than on existing use with restrictions. With few exceptions, recent rises in concession rentals have borne little comparison to the economic performance of the industry or the particular marina business, as demonstrated in the Figure 1 summary of the 5 marinas in the marina study. Figure 1 also includes, where relevant, additional concession rental increases which have been advised by the authorities to be applied from the next review date.

**Figure 1: Summary of Recent Concession Rental Increases**

3-Year Concession Rental vs. Marina Revenue Rise

<b>MARINA</b>	<b>Note</b>	<b>3-Year Revenue Growth</b>	<b>3-Year Rental Increase</b>	<b>Proposed Extra Rental Increase</b>	<b>Rental Calculation/Review Method</b>
		<b>%</b>	<b>%</b>	<b>%</b>	
<b>A</b>	<b>1</b>	<b>38.9%</b>	<b>38.5%</b>	<b>400%</b>	<b>Proposed Method 1: 20% * No. berths*List rent*365</b>
<b>A</b>	<b>1</b>	<b>38.9%</b>	<b>38.5%</b>	<b>50%</b>	<b>Proposed Method 2: 8% Land value (alternate zoning) +12% improvements</b>
<b>B</b>	<b>2</b>	<b>18.8%</b>	<b>no change</b>	<b>see note 2</b>	<b>8% Land value (actual zoning)</b>
<b>C</b>		<b>25.8%</b>	<b>83.7%</b>	<b>40%</b>	<b>8% Land value (alternate zoning)</b>
<b>D</b>		<b>24.9%</b>	<b>24.2%</b>	<b>Under negotiation</b>	<b>8% Land value (alternate zoning)</b>
<b>E</b>		<b>14.5%</b>	<b>132.2%</b>		<b>8% Land value (alternate zoning)</b>

Notes:

1. Marina A has had two alternative rental calculation methods to the historic complicated method; each represented significant rent increases, with sundry other charges still payable.
2. Marina B was initially assessed on alternate market value at last rental review which would have raised rentals by nearly 200%; the landlord, DERM, reverted to concession site value for the past 3 years.
3. All marinas are charged additional amounts included in their historic rentals, but expected to continue in addition to the base site rental. These include dredging levies/contributions and Crown Levies, each of which are set at the relevant authority's discretion, with no link to economic performance of the marinas.

The inconsistencies in the resulting concession rentals is illustrated by one marina who moved from one authority (POB) to another (DERM) and was able to have their concession rentals reduced under the new owners policy by over 50% from that being charged by POB. Another regional marina we reviewed (but did not include in our case studies and has not changed landlords) has received a 1200% rental increase. Marina B was initially reviewed and assessed for a 200% increase, but when the DERM reviewed its policy and reverted to the valuation based on actual site use and restrictions, there was a nominal change in rental applied.

The transfer of POB sites to QT appears to be a positive policy response by the Queensland Government to the difficulties in having community facilities owned by a former Government Business Enterprise after it has been privatised. After representations to the Queensland Government by the industry, the Treasurer, Mr Fraser, told Parliament on 19 August 2009 the following<sup>1</sup>:

**“In any transaction in any process as complex as the one that we are taking in relation to our *Renewing Queensland Plan* there are going to be many issues that arise. As we work through those issues, there has been strong advocacy by the member for Sandgate and indeed also by the member for Redcliffe. In fact, the Deputy Premier has also raised with me the issues surrounding the existence of *marinas and boat leases at Manly, Scarborough and Shorncliffe. These are legacy community facilities* which, for historical reasons, have been in the ownership and management of the Port of Brisbane Corporation. *They essentially operate as community facilities.* They are obviously not the core business of a major containerised trading port. Therefore, we seek to have these facilities operate as community facilities into the future and we will exclude them from the sale process.”**

*Emphasis added*

The subsequently announced transfer of the POB sites to QT provides the opportunity for the POB concession holders to have their rentals assessed based on the economic performance of the marina concessions, taking into account the concession restrictions and the nature of the concession sites as community facilities, as announced by the Treasurer and set out in bold above.

We note that sound economic government management principals dictate that revenue from marina and other boat harbour concession sites should be applied to the administration (including safety and environmental regulation), to support industry promotion and development, and for direct services (such as dredging access channels to marinas) to the community facilities provided by the concession sites. It would be counter-productive to set concession revenues at a level which fully funds unrelated public amenities and community facilities such as boat ramps, park facilities and amateur sporting facilities.

Nor should operators of marina facilities be required to effectively fund the cost of maintaining facilities adjacent to their operations, but for which they receive no revenue – e.g. public boat ramps, roads which access both public and marina facilities

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<sup>1</sup> Source: Hansard, Wednesday 19 August 2009

and dredging. Such facilities are community facilities provided to any member of the public who wished to use them free of charge.

It is clear that it is not an economically sustainable policy for the concession rentals to be set at levels which finance such other, unrelated government initiatives, whether or not those initiatives are the budget responsibility of the authorities or of other government entities. For this reason, our modelling and analysis does not focus on the authorities' use of their concession site revenues, as the application of those monies to general revenue or specific programs is outside our brief. We focus instead on the methodology for setting sustainable rentals which will optimise the public benefit, while attracting optimal long-term investment in marina facilities, and which will optimise the continuing returns to the authorities on concession sites which they own.

### **Key Elements of Commercial Marina Policy**

Following our detailed analysis and review, Pitcher Partners recommends the adoption of a formula for the calculation of marina rents which provides:

1. Certainty to marina concession holders;
2. Compliance with the Government's waterways access policy and public amenity objectives;
3. Returns to the authorities based on marina turnover, providing exposure to upside earnings of such facilities, whilst providing adequate returns to the concession holders, including sufficient funds to cover the maintenance, refurbishment and rebuilding of marina facilities over the investment life cycle;
4. A system which is simple to administer for the authorities, has low compliance costs for the concession holders and minimises disputes between all parties;
5. A system which recognises the various wet and dry lease area ownership structures and encourages complimentary development on contiguous freehold land through a policy of sharing the concession rental with other government or private sector investors who commit freehold land for wet or dry lease marina activities; and,
6. The ability for concession holders to raise finance using only the marina business as security.

Our analysis demonstrates the following key factors need policy certainty:

- Lease concession terms - are generally inadequate to support optimal, sustainable development for Queensland marinas as commercial service enterprises recognising the considerable public benefit and community amenity provided by the marinas.

A standard term for a new marina concession or major re-development needs to be flexible, but the investors would require 40 to 50 years<sup>2</sup>, but preferably longer with at least 75 years (Section 6). If no change is to be made to the current common policy, under which no capital compensation is provided on cessation of the lease for the unrecovered value of improvements, and in fact make good is required, then shorter terms than 40 years are just not viable.

Even where there is no immediate re-development planned, we are recommending similar minimum terms for lease renewals to encourage mid-term major upgrades, re-building and refurbishment of marinas. This is particularly relevant where the authorities are inserting terms into new leases requiring the maintenance of the facilities at premium levels on a consistent basis.

Options should be granted to the concession holders to enable them to extend the term of the lease in certain circumstances where they are considering carrying out substantial capital improvements towards the latter stages of the original lease.

- Concession rentals need to be linked to economic performance of the marina. We recommend adoption of world best practice linking concession rentals to marina revenues. We are recommending concession rentals set at 6% of turnover so that the authorities receive a return which escalates with real berthing rates and automatically receive an additional return on further development;
- That rentals above 6% are not sustainable and should therefore not be considered further as they would require policy and resource allocation to support the marina industry in the following circumstances;
  - iv. Require external support in the early stages of the investment cycle when the capital investment is at its maximum after re-development.
  - v. Require external support during any economic downturn period which is severe enough to cause revenue growth to be at less than 1% above CPI for even just one year; and,
  - vi. Require external support to enable a marina concession holder to maintain, improve and build infrastructure.
- The model supports the view that some flexibility needs to be retained for special circumstances such as starts ups in regional tourism and growth areas and where the provision of community facilities is a key aspect of the overall project.

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<sup>2</sup> International experience demonstrates that this term needs to be flexible where major capital construction works are planned. This includes marinas attached to major resorts, high-rise residential or major shopping/commercial precincts. Lease terms in such cases are typically 99 years, or else the relevant lease site is converted to freehold.

- Exclusion from tollable revenue of the turnover derived from public amenities and uneconomic services such as fuel depots.

## **Pitcher Partners Approach**

Pitcher Partners approached this sustainable rent report by:

- Analysis of a selection of regional and city-based commercial marinas in Queensland utilising our financial model. The model operations, inputs and detailed output reports are provided in Appendix 1, with commentary on the interpretation of the analysis in the body of this sustainable rent report;
- Identifying problems arising with the current system;
- We then prepared recommendations for an approach to policy and setting of sustainable rentals for concession holders which we expect would see the marina industry in Queensland move towards international best practice.

We have selected 5 marinas from those who have agreed to participate in this study and provided their data. These range from medium to large size marinas across the State of Queensland, most with a full range of marina services and with sub-let premises.

We have not dealt with special incentives which may apply to not-for-profits, or to special cases which attract investment incentives from the authorities (such as smaller marinas, tourism or regional development incentives). We note, but have not analysed in detail, that resident-only berthing facilities are not comparable to commercial marina operations, because levies or concession rentals are a part of a wider process related to waterfront residential developments. Sustainable rental for Resident-Only berthing facilities would require a separate study to identify the commercial drivers specific to that development class.

Given the recent strong growth in Queensland economy and the importance of tourism and marine industries to the State, it is reasonable to expect that boat harbours and marina facilities would be of a first class standard. The single factor we have identified as being responsible for the lack of investment to date, including commitment to significant upgrades, is the lack of a certain and sustainable rental methodology.

Given the strategic importance of marina facilities to the marine sector, and the fact that the marine industry is a key development industry for Queensland<sup>3</sup>, action is warranted to remove the impediments to investment in new berths and in quality improvements to existing marinas. Our research identified cases where the lack of

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<sup>3</sup> For Queensland government websites identifying key development industries see:  
<http://www.industry.qld.gov.au/dsdweb/v4/apps/web/content.cfm?id=6362>  
; and  
<http://www.industry.qld.gov.au/dsdweb/v4/apps/web/content.cfm?id=4949>

berthing facilities for superyachts became a limiting factor for the sale of such superyachts. Also, in high density residential areas, dry stack, moorings and berths are increasingly important as fewer residential sites now have quarter acre blocks capable of garaging or storing the car and boat.

### **Problems identified by Pitcher Partners with existing Concession Rental Approach:**

International best practice dictates that the best approach by a government authority to setting lease terms and conditions for any concession, including marina concessions, should promote a 'triple win' scenario. This 'triple win' scenario dictates that the policy should optimise the return to all stakeholders as follows:

- A. Optimise the provision of quality marina services to the public at affordable prices;
- B. Optimise the public benefit and community amenity for the authorities from their concession sites; and,
- C. Optimise the returns to the concession holders from their concession investments.

The main problems areas we have identified with the current approach by the authorities to setting concession rentals are discussed in more detail in this paper and the appendices. In summary they are:

- Lack of certainty to marina concession holders on concession rentals;
- Basis of valuation – appropriate comparable values;
- No right to object under some concession leases;
- Allocation of concession rental where more than one property owner
- No consideration for concession site restrictions and public amenities provided;
- Lease terms too short to recover marina investment, but no compensation for goodwill or the unrecovered investment in improvements;
- Complex and costly system to administer
- Out of step with the economic cycle (rents spike at start of economic downturn); and,
- Difficult to raise finance using only the marina business as security.

## **1. Lack of certainty to marina concession holders on concession rentals**

Sustainability of the marina operations relies on certainty of contract terms, particularly tenure and the level of major heads of expenditure, including rent. Concession sites will not be developed to their full potential if the elements discussed below are not resolved, as each forms an impediment to attracting investor capital and to raising debt finance. The result will be lower returns to the authorities over the term of the concessions, and the Queensland public and tourism industry will suffer from lower quality amenities and recreational boating facilities.

Best practice demands certainty in setting a single concession rental based on the economic performance of the marina under its concession permitted use and other restrictions. We have identified problems due to uncertain methodology for concession rentals and due to ‘double dipping’ where, in addition to the concession rental, multiple additional charges and crown levies are imposed. These double-dipping charges are subject to discretionary review without consideration for the sustainability of the businesses levied, and are applied inconsistently by various authorities to marina concession holders.

## **2. Basis of valuation – appropriate comparable values**

It appears that some of the authorities have now adopted a process of calculating a market value rent based on alternate use of the land, such as high-rise waterfront residential or other higher value commercial zoning, rather than taking into account existing use and other restrictions imposed under the lease.

The concession leases contain market review clauses which require concession rental to be reviewed to 6% or 8% of Site Value at specified times. Some, but not all leases, include a reference to planning or other consents current at the relevant Market Review Date, a reference which would restrict market value to the actual permitted use.

Where such restrictions are provided for in the lease review terms, concession holders are concerned that Valuers may not be instructed to take into account permitted use and planning consents, that the lease documents are inadequate to protect their position, and that there is no clear policy to support market value being limited to actual site zoning and concession restrictions.

A discount to full commercial rentals to match the actual zoning and concession restrictions is absolutely necessary in order to ensure appropriate returns to concession holders whilst providing sufficient funds to enable concession holders to maintain facilities to the consistent standard required and fund to further upgrades.

The recent experience of concession holders is that there has been, or will be, concession rental hikes based on the market value of the underlying site, but assuming a different commercial zoning, such as industrial or waterfront residential high-rise. We see a major continuing problem with the viability of Queensland marinas unless valuations are based on actual zoning, taking proper account of concession site

restrictions such as public amenities, open space, environmental and community service facilities.

We believe the practice of calculating concession rentals as a percentage of market valuation has led to inconsistent and unsustainable rental reviews. This practice is complex to administer, provides difficulties for valuers, and is prone to extended and expensive disputes. It provides particular difficulties for a developing industry and for marinas which are going through a phased development. The resultant uncertainty and cost is a disincentive to invest, leading some Australian and international authorities to abandon this 'Site Value' approach in favour of revenue based methodologies.

### **3. Allocation of concession rental where more than one property owner**

Wet lease versus dry lease share of concession rental is an area of great concern to the industry. Some marina sites are conducted over several seabed or dry land property titles, and sometimes with multiple owners of those titles. A clear policy on how concession rentals from one marina business are to be shared between the marina land owners is required. This is an issue whether rentals are based on site valuation or share of revenue.

Issues also arise because different authorities and third parties (sometimes the marina concession holder) own adjacent freehold land used in the marina business. Some holdings are complicated, such as examples referred to us where part of the freehold land has been dredged to create additional berths.

Marina B is an example we reviewed which involved a concession site of a wet lease, where the adjacent dry land was owned by the concession holder. The authority in that case set the value of the lease based on the value of the adjacent dry land. The result was a tripling of the concession rental. The concession holder in that case was successful in having DERM re-calculate the rental based on the wet lease only. The problem we have noted for all authorities is the lack of a clear policy dealing with apportioning of the rent between authorities and third party site owners.

In summary, in situations where there is more than one authority involved in leasing facilities to a particular operator, the revenue based on a percentage of turnover should be the total concession rental charged across all owners.

### **4. No right to object under some concession leases;**

Most concession leases have mid-term rental reviews, and some leases provide substantive discretions for the authorities. Some leases provide no right to object to the authority's discretion or new rental calculation method. Some concession leases do have referral to an arbitrator, although the referral terms may be inadequate, or the market value requirement insufficiently defined in the lease to give clear guidance to an arbitrator. A satisfactory condition would require site value to be determined based on current zoning and permitted use, with the valuer and arbitrator required to be instructed accordingly.

**5. No consideration for concession site restrictions and public amenities provided;**

Permitted use restrictions (including easements) and concession restrictions typically provide for open space, public and government water access. Leases exclude airspace rights, and proposed development, which is at the discretion of the authorities, include restrictions on use, height, and plot ratios which reduce the exploitation of the site.

Fuel depots, public parking and other community facilities impose costs on concession holders not ordinarily related to their marina business, and are in fact the provision of community amenities. As such they limit the commercial potential of the site, and correspondingly reduce the market value (improved or unimproved).

Sustainable rentals need to be set taking into account these limitations on the commercial potential of concession sites, either by relating the rental to economic performance, or by applying an appropriate discount to the alternate use market value.

**6. Lease terms too short to recover marina investment, but no compensation for goodwill or the unrecovered investment in improvements;**

It is typical for concession site leases to exclude any compensation for business goodwill, or for the remaining value of the improvements at the end of the concession lease term. Lease terms typically include requirements to maintain the marina in full operating order until the termination date, but also include 'make good' provisions which require removal of all improvements and restoration of the site by termination date.

This problem is usually overcome in public-private partnerships (PPP) and for concession property by ensuring that the term of the concession is sufficient to fully amortise any improvements, or to provide a sufficient return to cover the value of improvements returned to the government without compensation. If the authority decides on termination that the concession site is to continue with the same use, a preference option is usually provided to the concession holder.

Our analysis indicates two problems with marina concession terms at present. Most are too short to recover the initial investment or a substantial reconstruction. The second problem is that marinas often require substantial additional investment mid-term, which can only be recovered by a flexible lease term which can be extended for a term sufficient to recover the additional investment. As such we recommend that concession holders be granted further option terms to their lease to encourage this further development and refurbishment.

**7. Complex and costly system to administer**

The complexity arises both from the piecemeal development of different lease terms and the history of Queensland government owning and promoting marina development through different departments and agencies. It also relates to the uncertainty arising from different concession lease rental methods and a myriad of additional charges for operating a single marina.

This system requires detailed understanding of each lease contract, but is prone to disputes due to uncertainty in valuation methodology and differential treatment of concession holders. It is evidenced by the current level of disputes, and by different methods of setting rentals within boat harbours, and in one case we reviewed, for different wet and dry land titles within the one marina concession.

#### **8. Out of step with the economic cycle (rents spike at start of economic downturn)**

Licensed valuers set valuations with reference to recent sales. For this type of property, there are rarely directly comparable recent sales in the surrounding area, so valuers are limited to using the most comparable recent commercial or residential sales in the area. In the valuations which we have been provided with by participating marinas, these valuations tend to reflect sales in the two year period prior to the valuation, while rentals start 6-12 months after the valuation.

The current economic downturn demonstrated that rentals are being set on valuations which are no longer valid, but reflect the recent boom conditions. At a time when values have fallen and revenues are threatened, peak rentals are being assessed by the authorities.

Our research has identified two Australian marina developments which were won on tender, and which illustrate the sensitivity of marinas to the current economic downturn associated with the GFC. One example, in another State, has not been able to raise capital and development has not commenced over two years after the tender was awarded. The other case involves a new Queensland concession, which involved a lease term which became inadequate to support the tendered investment due to the impact of the GFC. The marina is proceeding, but the authority conceded a reduced investment in facilities because of the changed economic circumstances.

#### **9. Difficult to raise finance using only the marina business as security.**

Banks valuations we have reviewed look at the remaining term of the concession lease, and heavily discount any option periods (some option periods are contingent on Ministerial approval and would be ignored by most credit analysts). For this reason we recommend that option terms be certain for the concession holders subject to them continuing to meet certain standards of the facilities.

Banks also look at the level of, and ability to control, key costs items. Some operators seeking additional funding for potential further development have received negative feedback from their bankers due to the hike in concession rentals, and the potential for further unrestrained rental hikes.

Finance institutions have advised that the full market value of many marina businesses in Queensland is not accepted as security against direct funding. This factor reduces the investment capacity of many potential operators and increases hurdle rates due to the inability to gear the investment.

If the concession agreements and rental formulae were certain, and hence more "bankable", we consider it possible that banks may lend in the range of 50% to 65%

of the cost of the marina acquisition and development costs at the point of highest investment (that is, immediately after a redevelopment at the start of a concession term).

## **Recommendations**

### **1. Published policy applicable to all commercial marina concession holders;**

In the interests of certainty and consistency, we recommend that the authorities in Queensland develop a common policy for commercial marina concessions, and publish the resultant policy.

We further recommend that the policy be developed co-operatively with Marine Queensland in order for the recreational boating industry interests to be considered through a consultation process.

The policy should be developed to fully consider the issues raised in this sustainable rent report, with priority given to providing a triple-win for all stakeholders, including:

- a. For users (Queensland public, boating industry and tourism industry), to optimise the provision of quality marina services at affordable prices;
- b. For the authorities, to optimise the public benefit and community amenity for the authorities from their concession sites; and,
- c. For concession holders (including investor/owners and operators), to optimise the returns from their concession investments.

International best practice dictates that the best approach by a government authority to setting lease terms and conditions for any concession, including marina concessions, should promote a 'triple win' scenario. This 'triple win' scenario dictates that the policy should optimise the return to all stakeholders.

### **2. Valuation based on economic performance, after taking into account the marina zoning and permitted use restrictions**

Our primary recommendation is that the authorities abandon land value as a basis for concession rental calculations in favour of revenue-based reviews. If market value is to be used, we recommend utilisation of market values which take into account the actual zoning, permitted use and concession restrictions on the concession site. This will remove the potential for unsustainable rentals and spiking of rentals when alternative use values rise steeply.

### **3. Move towards revenue based concession rentals**

We note in this report and in Appendix 3 that international best practice supports a system of basing marina concession rentals on revenue. Appendix 1 sets out the results of our financial modelling of the 5 marina case studies. This analysis provides clear support for the preference for basing concession rentals on a reasonable

percentage of revenue. This is because of the sensitivity of return on investment to rentals which are not based on economic performance of the marinas.

In the current economic settings, Australia has historic and forecast interest rates and inflation rates higher than other comparable jurisdictions, justifying rentals set at a higher percentage of revenue (up to 6% of water revenues, 2% on retail/fuel) than is charged by comparable jurisdictions. Any higher rate would require reinvestment by the authorities of part of the revenue to support concession holders through economic downturns, and in the years immediately following start-up or any major capital expenditure.

Due to the inherent administrative problems with administering concession rentals based on a discounted valuations for alternative zoning, and to the propensity for disputes under that methodology (even if current leases are amended to provide objection rights), it would be better for the authorities, the community and marina investors for Queensland to adopt world best practice policy being used in other Australian and international jurisdictions, with concession rentals being assessed as a percentage of revenue.

#### **4. Adjustments for concession site restrictions and public amenities provided such as fuel depots;**

Our analysis and research in Queensland and other jurisdictions consistently shows that fuel depots are not commercially viable in marinas, but are a community amenity which need to be subsidised where provided. The authorities need to make a judgement on the need for such facilities, and set a special rate or zero rate on the revenue derived from such community amenities.

#### **5. Minimum Lease terms with extensions for material mid-term investment**

Lease concession terms we have reviewed are in most cases inadequate to support optimal, sustainable development for Queensland marinas as commercial and community service enterprises. If no immediate upgrade or re-development is planned, we are recommending minimum 25 year terms on renewal, with extensions to at least 50 years to encourage mid-term major upgrades, re-building or refurbishment of marinas.

Analysis results consistently demonstrate that special factors are required to achieve satisfactory returns to investors over a 25 year term. An example of a special case would be a new marina where operating costs can be expected to be contained to CPI rises over 25 years, but where that there is good reason to believe that real revenues will rise at well above the CPI. We believe sustaining such real revenue gains over such a long term is rare. We would therefore recommend a policy based on the legislative guidance found in Section 155 of the *Land Act 1994*. This would provide a base lease term of 50 years for concession renewals for any concession where imminent major new or redevelopment is planned by the concession holder.

We note that Queensland government authorities are empowered under existing legislation to grant 50 year lease terms, with the ability to extend the overall lease

term to up to 100 years where warranted by major investment in capital costs. We cite Section 155 of the *Land Act 1994*:

#### **155 Length of term leases**

**(1) A term lease for land other than rural leasehold land must not be issued for more than 50 years.**

**s 155 131 s 155**

**(2) However, a term lease for land other than rural leasehold land may be issued for up to 100 years if it is for—**

**(a) a significant development; or**

**(b) a timber plantation; or**

**(c) a development that involves existing improvements that in the opinion of the Minister have required a high level of investment.**

### **6. Policy to support industry during economic downturn**

We recommend that the authorities make an assessment of industry needs through the economic cycle to encourage a consistent level of investment in recreational boating facilities at all times, and to mitigate the risks typically encountered by concession holders during recession. This recommendation includes setting a percentage of revenue which is sustainable through a recession, and not just in normal trading conditions.

### **7. Flexible Policy for Concession with Multiple Owners**

The marina industry may benefit from any policy incentive which encourages the use of adjacent sites in synergistic business activities or to extend the marina services. Flexibility is required to deal with a range of existing wet and dry lease ownership structures, to ensure that freehold land committed to marina use is allocated a fair share of the revenue based concession rental.

We recommend that the authorities consult with Marine Queensland in developing appropriate rental sharing to encourage the commitment of adjacent sites to marina use by other government or private sector third parties owners. The issues are sufficiently complex to require a separate study. Our recommendation is that each authority produce an inventory of their site ownership, with an analysis of the ownership structure of each site. The interests of the various authorities and private landholders in the existing marinas needs to be considered, so that appropriate recommendations for rationalising the Queensland governments holdings may be considered, and a suitably flexible policy for revenue sharing can be designed in consultation with the stakeholders.

### **The Model**

The model was developed by Pitcher Partners in conjunction with Marine Queensland for the purpose of calculating the level of rent capable of being paid by a marina on a long term sustainable basis.

In our opinion the sustainable rent is one based on revenues, and paid to the authorities for the use of a marina site for the purposes of conducting a marina business in accordance with Queensland government and the site owning authority's policy and objectives. This includes maintaining access to Queensland waterways for the public, access to various public amenities<sup>4</sup> and providing commercial marina services to the boating public.

The model features have been designed to facilitate the analysis of a range of strategic options and to enable sensitivity analysis to be performed on those options. The results were workshopped with a cross-section of marina operators who currently wish to invest in new and improved infrastructure projects.

The marina operators were asked to provide in a simple format historical performance data on investment, revenues and operating costs as well as key financial assumptions for their proposed investments. The investment cost data contained in the model reflects industry pricing and cost estimates for developing or restoring the marina infrastructure, facilities and fitout at current day prices.

Appendix 1 sets out details of the models inputs, operation and summary reports from the analysis of 5 Queensland marinas.

### **What the Sustainable Rent Model does**

- 1) Calculates sustainable rent.
- 2) Adopts 25 year physical life cycle for all marinas, at which time major capital works to rebuild or redevelop the marina is required to ensure the same high level of facilities and services are maintained.
- 3) Projects current income and expense profiles over 15, 20, 25 and 50 year concession terms.
- 4) Calculates the Internal Rate of Return before and after rent levies at 6 and 8% of revenue (and 2% for fuel) but excluding double-dipping on rates and crown levies.
- 5) Identifies and quantifies the reduced capacity to pay the authorities rent when the term of a concession is reduced from 50 years to 25, 20 or 15 years (terms less than 15 years generally do not generate a commercial return on, or even a return of capital invested).

### **Marina Case Studies**

The financial model results and accompanying analysis for the five marina case studies is presented in a manner which demonstrates that the recent escalation of concession rentals (actual or proposed) have raised rentals to levels which are not sustainable. The model has been used to analyse a number of marinas owned or

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<sup>4</sup> *Public amenities or services would include re-fuelling points.*

operated by Marine Queensland members who cooperated with the study. The results are summarised in Table 1.

Table 1 sets out the average return on investment over the 15, 20, 25 and 50 year concession terms for the five Marinas analysed in our study. For the purposes of this sensitivity analysis we have applied two rental formulae:

- 1) Table 1 is upon the basis that concession rental is the sum of 2% of fuel income and 6% of all other revenues;
- 2) The Reports in Appendix 1 also include model results demonstrating the sensitivity to higher concession rentals calculated upon the basis of 2% on fuel income and 8% of all other revenues.

These averages are pre-tax returns to the concession holders and our calculations are all performed on the assumption that operating costs increase in line with movements in the CPI of 3% over the entire analysis term. (3%pa sits within the Reserve Bank of Australia (“RBA”) CPI target range).

All the model results reported elsewhere in this report, and in Appendix 1, include this assumption for operating cost escalation at CPI over the respective concession terms for which feasibility analysis have been conducted. Marina revenues are projected to grow in real terms at a rate of 1% per annum above the CPI (that is, 4% p.a. unless stated otherwise).

This set of financial assumptions may overstate returns to investors, as marina owners in Queensland (including many which were not selected for case studies) have reported that operating costs and capital construction costs for marinas have consistently increased faster than consumer prices as measured by the CPI. It is also unusual in our experience for a business to be able to restrict its operating cost increase to CPI when revenues are growing at well in excess of CPI over the medium to long term.

The first column of Table 1 shows the concession lease term in years. We have included results over 15, 20, 25 and 50 year concession terms. The results shown in the column 2 of Table 1 assume growth in marina revenue equivalent to the projected growth in the consumer price index (“CPI”) of 3% per annum over the entire 50 year analysis term.

Table 1 also includes model results for sensitivities assuming real revenue growth of 1% & 2% p.a. Real revenue growth is the rate at which revenue grows in excess of CPI, which means nominal revenue grows at 4% and 5% per annum respectively assuming CPI of 3% p.a. These results are shown in columns 3 and 4 respectively.

Based on the results disclosed in Table 1, no decision to invest would be made on the assumption that revenues only grew in line with movement in CPI, as even over a 25 or 50 year concession term, the return to the concession holder after payment of rent at 6% of turnover would only be 10.5 – 11.1%. This level of return is not sufficient to induce a potential investor to take the risk involved in such an investment where the

required rate of return would be between 13% to 15% after tax, which equates to 17% to 20% on a pre-tax basis (see Appendix 2).

However, if real growth in revenue of 1% to 2% above CPI is assumed, with a 50 year concession term, then the returns become 13 – 15%. This is much closer to the return required by an investor to compensate for the risk of entering into such an investment, although still not achieving the required rate of return of between 13% to 15% after tax which equates to 17% to 20% on a pre-tax basis.

**Table 1 – Queensland Marina Authorities rent on 6%/2% formula**

*Table showing – Pre-tax Ugeared Return on Investment  
Average for 5 Marinas in Case Studies*

Concession Lease Term in Years	Real Revenue Growth		
	CPI Only	+1% p.a.	+2% p.a.
50	11.1%	13.1%	14.9%
25	10.5%	12.3%	13.9%
20	9.4%	11.1%	12.5%
15	6.8%	8.6%	10.2%

Assumptions for Table:

Costs escalate at CPI = 3.0% p.a.

**Notes:**

1. **Hurdle rates for commercial investment in marinas are 13-15% after-tax IROR; these returns commute to 17-20% pre tax IROR.**
2. **1% per annum real growth in revenue for an industry in which costs grow at a rate equivalent to CPI is very high over the long term. 2% per annum is considered by Pitcher Partners to be unattainable across the industry.**
3. **Our research indicates that both marina development costs and operating costs have been growing faster than the CPI over the past 5 years.**

It is clear from Table 1 that:

- a) Only minimum 25 year concession terms and above should be considered as supporting potentially sustainable investment in Queensland marinas. The returns over the shorter periods of 15 or 20 years are much less than the returns required by investors.
- b) Rents at 6% require real growth of at least 1% over the 25 year term to achieve a return of 12.3% - again still lower than the required IROR. A 25 year term is only sustainable at this rental level if special factors exist which enhance the investment return to the marina concession holder.
- c) Rents at 6% still only produce a return of 14.9% assuming 2% real growth over a 50 year concession term and in our opinion 6% is the maximum rate

which the marinas can sustain in the long term, since such sustained real revenue growth is difficult to maintain over the longer term.

It is Pitcher Partners view that a real growth rate of 1% pa over a period greater than 10 years is high, and difficult to sustain consistently in this industry. This is because marinas are providing the same service over the entire period and are reliant upon increasing levels of demand, each and every year, to enable them to increase berthing fees above CPI. In our opinion 2% is quite unrealistic but has been included for illustrative purposes to show that even at this level of real growth the return on investment is only just reaching the target range.

We note that these real revenue growth rates apply to a marina in its current configuration. Any further extension or development is treated as a new project which would need to be separately analysed.

In this industry, which is featured by high inelasticity of supply, but slowly rising demand for foreshore and marina facilities, it is sometimes assumed prices will grow strongly *ad infinitum*. Market history shows that if tariffs reach a critical point, berthing occupancy falls away, especially in an economic downturn. Once boat owners have disposed of their investment, industry experience is that occupancy rates are slow to recover, as boat ownership growth tends to coincide with the top of the next boom.

We consider that the minimum target Internal Rates of Return (IROR) which private sector investors require for commercial investment (or 'hurdle rates') in marinas equate to 13-15% after-tax IROR; these returns in turn commute to a 17-20% pre tax IROR after allowing for tax timing adjustments. Appendix 2 contains a discussion of private equity yield requirements in the current Australian financial markets.

These hurdle rates are based upon equivalent commercial returns from infrastructure investments which range from 13.4% to 17.8% post tax. It is noted that such infrastructure investments are through listed vehicles and would be considered less risky than a similar investment in a single marina. The hurdle rates also derive from the need to earn a premium over commercial debt interest rates as an incentive to invest and bear the consequential risk. Commercial debt interest rates for a bankable marina concession currently range from 10-12% per annum.<sup>5</sup>

This paper provides the justification for basing the calculation of rent for marina concessions on the turnover or revenue of that business. The model is designed to provide a simple tool which calculates the sustainable level of rent for any marina, using financial data from the marina and under a normal range of economic and commercial conditions.

We note that sustainability relies on certainty of contract terms, tenure and the level of major heads of expenditure. This is particularly relevant to marina concession rentals where,

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<sup>5</sup> We discuss below the conditions and impediments to raising finance against a marina concession business under the heading *Raising Debt and Equity*.

- a) The authorities are monopoly suppliers of marina sites;
- b) Investors or financiers do not want this major head of expenditure to be uncertain in relation to;
  - the calculation method
  - term of tenure
  - potential for rent expense to increase faster than the financial performance of the marina can sustain.

In our opinion the rent should be related to the actual operating performance of the marina concession, and not to market values based on alternate use, or unauthorised use, of the site.

It is our recommendation that Marine Queensland seek certainty with respect to the methodology by which the rentals are to be calculated and the tenure of the concessions. If these two outcomes are achieved with long term certainty, Pitcher Partners experience indicates that marina businesses may be able to be used as the primary bank security for the own long term debt finance applicable to the acquisition and development of the marinas. See further comments under Executive Summary and Raising Debt and Equity.

### ***Cash Flow Projections***

In the analysis contained in this report costs have been consistently escalated at the generally accepted inflation indicator rate, CPI.

Given the nature of the industry, revenues are escalated at a rate which reflects the expected real growth in revenue due to increased prices for marina services. Although revenues may be observed to grow quickly over the short term, we would not expect an investment analysis to assume real growth at more than 1% per annum above the CPI. This is a high real growth rate in the longer term.

The model assumes that comparable service levels are provided over the concession term (that is, the quantity and quality of modern marina water and other facilities) so that the only increase in revenues that can be derived are from higher real prices chargeable for marina services over the 25 year lifecycle of a marina. A complete re-development of the improvements would then be required to maintain the pricing levels for services and to maintain operating cost efficiency after year 25. An older facility can still be operated, but will not generate the same income levels.

For these reasons, only an increase in demand, against inelastic supply, will enable real prices to be increased to end users. This is the only way that revenue can increase under the model's assumptions. Note that any further development of a marina site which increases marina capacity or service levels is, therefore, a new project which would require separate feasibility analysis using the same model, but which does not change the original investment being analysed.

The model assumes that there would be no capital compensation to the operator for any unamortised capital cost (if the licence was for less than the full 25 year life cycle) or for any goodwill generated by owner operators over a considerable period of time. We note that this is consistent with the current arrangements between the authorities and the concession holders.

### **Sustainable Rent Calculation**

The level of sustainable rent has been calculated as the difference between operating profit before rent and the minimum profit required to provide the investors with their “hurdle rate” investment return (required IROR). As this analysis is simplified to exclude gearing and tax, the hurdle rate is the pre-tax earnings yield required for an investment with an equivalent risk profile of a marina business. Appendix 2 provides an analysis of WACC and investment equity yields, and an explanation of why we use an IROR of 15% p.a. as an indicator of the minimum return required before a marina business is considered to be paying ‘Sustainable Rent’ levels.

The analysis has been completed on an EBITDA basis, which is appropriate for a model which is based upon pre-interest and pre-tax earnings and where there is no residual capital value when the concession expires. Mathematically, the full investment amortisation is taken up in the yield calculation. Investors will first and foremost expect a return on investment which exceeds their commercial cost of debt (we assume 10-12% p.a. interest rates will again be attainable on economic recovery from the GFC) with an adequate premium for the business risk, including the chance that commercial interest rates may rise.

The analysis undertaken results in the calculation of a sustainable rent figure over the investment life cycle of a marina. The sustainable rent is the maximum tariff which can be paid from marina cash flows in order to just achieve hurdle rate returns over the anticipated life cycle of a marina for the concession holders.

The percentage of sustainable rent is lower for concessions with shorter periods of 15 and 20 years. It is also noted that there will be no compensation or residual sale value for the investor for that unamortised portion of the marina and buildings improvements. As a result, earnings retained by the operator need to be higher, in order to fully repay the investment and earnings yield over the reduced concession period.

The crucial outcome is that the model consistently shows that concession holders with licence fees at 6% of revenue and a 25 year term would find the return on investment marginal at best. However over the shorter concession terms of 15 or 20 years this level of rent is definitely not sustainable.

Licence fees at 8% are not sustainable on any of the concession terms analysed.

Although 50 year concession terms show a higher return on investment, there is an additional risk factor due to the length of the investment term, and due to the assumption that major capital works will be required at some point during that term in order to maintain quality service levels. We have assumed that a major rebuild and

refurbishment is required in year 26, being 75% of the initial investment (escalated for 25 years at CPI of 3% p.a.). The actual cost and timing of major refurbishment and redevelopment costs is a significant risk factor in achieving a higher return.

### **Raising Debt and Equity**

The model calculates the earnings yield on capital investment based on pre-tax, ungeared cashflow, represented by EBITDA. To the extent that this return on investment exceeds commercial debt rates, the debt module contained in the 'Analysis!' worksheet provides an indication of the maximum long-term debt that the marina can service.

The module makes the following key assumptions;

- 1) Maximum debt cover ratio of 2 times
- 2) Gearing limited to 70% of capital outlay
- 3) Facilities over a 25 year period would be available. (In reality, financiers will usually insist on much shorter terms but with reviews every 3 to 5 years).
- 4) 50% of available cash from the marina operation is applied to debt servicing each year.
- 5) Commercial interest rates of 10%.
- 6) Security would be over the concession lease, the business and personal guarantees.

An alternative type of funding option which may be available is the use of rolling finance lease facility, with the residual at each term end decreasing over time such that at the end of 25 years there is no final residual. We have not separately modelled this type of facility as we consider that the outcome would not be materially different from the debt funding alternative referred to above.

Based on our analysis, the impact of the debt cover ratio would be to limit the gearing to between 50 and 60% of capital outlay, despite our assumption that gearing to a level of 70% could be obtained.

If the concession agreements are structured in such a way and with such certainty that financiers are more willing to lend to concession holders, it will reduce the perceived risk associated with the provision of such facilities to the lenders, and hence result in a lower margin applied on interest costs to the concession holder. Lower interest costs in turn may induce concession holders to borrow more funds to carry out further improvements to the facilities, which should result in increased turnover. Increased turnover to the concession holder then flows through to the authorities in the form of increased rent and the provision of further amenities for the use by the public.

Concession agreements will be considered “bankable” and enable the maximum debt financing to be obtained, if those concession agreements include:

- 1) Certainty of tenure;
- 2) Tariffs payable to the authorities which are linked to the performance of the marina and are reasonably determinable with certainty; and,
- 3) Other terms which mitigate commercial and regulatory risk.

If the marina cash flow budgets and projections indicate a probable return on investment in excess of commercial debt rates charged by banks to marina concession businesses, then the operator will be able to fund a significant portion of their investment through bank debt. The lower the risks associated with the investment, the lower the hurdle rate dictated by the Capital Asset Pricing Model will be. It is considered that more investment would be made in a marina by the operators as a result of the lower hurdle rate.

### **Results of our Analysis**

The results of the analysis conducted by Pitcher Partners supports the analysis carried out by Marine Queensland members on their own businesses and conveyed to us in meetings, telephone calls and by emails.

Tables 2 & 3 following sets out summary results for the 5 marinas selected and analysed using our model and attached as case studies (See Appendix 1). The Tables only include yields achieved for concession terms of 50 years and 25 years respectively. 15 and 20 year concession terms failed to achieve a sustainable rent as investment returns were too low to support further analysis and commentary.

We note that for all marinas analysed, real revenue needs to grow faster than real costs in order to provide the required rates on return to the concession holders, after allowing for rent to the authorities at even the lowest proposed rates.

These results are achieved with 6% (or 8% in Table 3 only) charged on gross water revenues (module 1), on gross rents for sub-tenants (module 3), and on trading profit (retail turnover less cost of goods sold) for slipway maintenance services or direct retail activities by the concession holder (module 2).

The other matter to stress is that the 6% tariff on water revenue cannot be sustained for other gross revenue such as fuel depot. A 1% to 2% tariff would be considered to be the maximum tariff on these fuel revenues. An alternative system based on gross margin, not turnover, would make administration of the concessions more complex.

The fuel depot is included as module 4 so that the results can be consolidated into the total marina analysis by the model, including the debt module.

We discuss the results from the model analysis of on activities other than water revenue investments under the heading ‘Exceptions – Sustainable Rent’ below.

**Table 2 – Projected Yield (IROR)**
*SUSTAINABLE RENT - Comparative Yield on 50 Year Term*

MARINA	Projected Yield (IROR) and Sustainable Rent	
	No Rent	6% / 2% Rent
A	15.18%	14.14%
B	12.29%	11.27%
C	14.96%	13.67%
D	14.50%	13.35%
E	14.15%	13.29%

Assumptions for Table:

Costs escalate at CPI = 3.0% p.a.

Real Revenue growth at 1.0% p.a above CPI

Concession Term: 50 years

Rebuild Cost: Capital Outlay end Year 25; Required again Year 50

Sustainable Rent is maximum % of water revenue to exceed 15% IROR  
(Fuel at 2%)

**Table 3 – Projected Yield (IROR)**
*SUSTAINABLE RENT - Comparative Yield on 25 Year Term*

MARINA	Projected Yield (IROR) and Sustainable Rent		
	No Rent	6% / 2% Rent	8% / 2% Rent
A	14.59%	13.45%	13.06%
B	11.34%	10.15%	9.75%
C	14.28%	12.82%	12.33%
D	13.80%	12.53%	12.10%
E	13.48%	12.52%	12.19%

Assumptions for Table:

Costs escalate at CPI = 3.0% p.a.

Real Revenue growth at 1.0% p.a above CPI

Concession Term: 25 years

Rebuild Cost: Capital Outlay required at end of Year 25

Sustainable Rent is maximum % of water revenue to exceed 15% IROR  
(Fuel at 2%)

## Commentary on Results of Analysis

The model is designed to permit sensitivity analysis over differing concession periods. However in all the case studies attached, we have found that shorter terms have poor economic returns predominantly as a result of the lack of compensation for the unamortised investment at the end of the shorter concession period.

The inability to generate the required hurdle rate from shorter concession terms arises from the assumption that there is no compensation usually expected from private business investment at the end of the investment analysis period. This assumption is made because:

- 1) The marina operator would 'walk away' from the investment, as there is no guarantee of a lease extension; and,
- 2) Neither a replacement concession holder, nor the authorities, are committed to compensate the initial concession holder for the unamortised investment or for any goodwill that may be generated by concession holders as operators over a considerable period.

Table 2 includes analysis for 50 year concession terms on the 6%/2% formula only. The results show returns closer to generating an adequate return than for the 25 year terms included in Table 3. In each case, the concession holder is considering business strategies aimed at lifting the overall return, including various options for further development and re-formatting of the marina structure. In each case a major impediment to development (past or present) has been uncertainty over rental reviews and inadequate concession lease terms.

Overall the financial results over 25 year terms under either rent scenario do not provide an adequate return on investment from the operating cash flows projected. This is usually indicative of one of two situations:

1. The business owner is stuck with an investment which would not justify start-up today, but which is not so unprofitable that an investor would simply close the business; or,
2. There is an expectation of additional returns – this could be an expectation of a licence extension, or for a new investor, the ability to value add (for example, as an outlet for a boat seller or re-development of the site for a higher value alternative use, such as waterfront residential development).

In order to achieve the required hurdle rate, concession holders are reliant on a 'moral commitment' by the authorities to continue the practice of favouring the existing concession holder in granting licence extensions or renewals. Then, the value of the marina to a concession holder at the end of the 25 year term is the difference between an entire replacement or construction cost of a new marina, and the cost of re-development and construction given the existing site access and infrastructure.

This 'moral commitment' encourages the existing marina operators to repair and maintain the facilities for the entire term of the concession, with a view to lowering the major redevelopment expenditure when the licence is renewed.

However, the nature of an investment in a marina with no return other than that generated by earnings over the term of the concession emphasises that any investment feasibility analysis should show a return on investment in excess of commercial debt interest rates, and especially that these returns should accord with the investment hurdle rates for private sector investment in a business of this type.

The major risk factor concession holders are confronted with is the uncertainty over the licence renewal at a sustainable rent. This risk appears to be heightened in recent times by the pressure on the authorities to profit from redevelopment of foreshore sites for private commercial or private residential purposes.

The current market value of marina sites on an alternative use basis is driven by the high residential prices in Queensland which, in the last 5 years particularly, have seen an unprecedented interest in re-zoning commercial sites such as those currently occupied as marina facilities, to residential. Marina operators are therefore dependent on Government policy to retain foreshore access for the public and for the provision of public amenities for marina users and other waterways users<sup>6</sup>.

We note that turnover based rentals at the higher end of the range would require external support in the early stages of the investment cycle when the capital investment is at its maximum after re-development. Cash flow and working capital availability are under particular pressure at this point in the investment cycle when borrowings are at their highest level, making the marina particularly vulnerable to economic downturns.

For example, Marinas A to E in Appendix 1 shows cashflow cover for interest expense is just 2.0 times in the first year after re-development to "as new" status, whereas the same ratio exceeds 4.0 times for all the marinas from no later than year 11. The model includes simplifying assumptions which means that year 1 cashflows after redevelopment are based on long term average occupancies. A normal letting up period would show even tighter cash flow in the early years after redevelopment.

Support would also be required during any economic downturn sufficient to cause revenue growth to fall below 1% above CPI for a period as short as one year.

Consider the sensitivities to a short term slowdown which we analysed on Marina A. Over 25 years, with 1% real revenue growth every year, the IROR after paying 6% concession rental is just 13.45% p.a.. However it is noted that if there is no real revenue growth for a single year, (i.e. revenue in any given year grows only at CPI (3%) and thereafter real revenue growth of 1% or 4% overall) the overall return

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<sup>6</sup> This is an issue across Australia. In other marina engagements undertaken, Pitcher Partners have been informed that marina concession holders who own adjacent freehold have simply allowed the marina concession lease to expire, and then redeveloped their freehold for other uses. Most authorities have a commitment to provide and encourage marina infrastructure and community facilities, and therefore do not terminate the lease on wet and dry titles for alternate development.

reduces. For example we set out in below the impact upon IROR if real revenue growth is not achieved in years 2 or 15 of a 25 year concession. The final line shows the impact of a 1 year recession (also year 2) where there is no increase in revenue or operating costs of Marina A

	IROR	Yield reduction
-> no slowdown	13.45% p.a.	
-> no real growth, <b>year 2</b> only	13.27% p.a.	0.18% p.a.
-> no real growth, <b>year 15</b> only	13.41% p.a.	0.04% p.a.
-> Nil revenue & CPI, <b>year 2</b> only	12.90% p.a.	0.55% p.a.

We believe there is a need for a flexible arrangement which makes the industry less vulnerable to recession, and we are happy to discuss some options we have seen which can make both the industry and the authorities share of revenues more resistant to recessions.

It is also noted that external support would be required to enable a concession holder to maintain, improve and build infrastructure. This would particularly apply to mid-cycle capital improvements related to government or industry initiatives, to special event requirements, or to regulatory changes (such as environmental and climate change initiatives).

The impact of such costs on the return to investors can be illustrated by reference to each case study in Table 3. A combination of regulatory changes and climate change costs which impose a cost of 2% of all future revenues has the same impact on yield as the difference between 6% and 8% rent on turnover. The impact varies from marina to marina, but in the case studies the reduction in investor yield varies from 0.33% per annum (Marina E) to 0.49% per annum (Marinas C).

If the concession agreements and rental formulae were bankable, our experience shows that banks would lend 50% to 60% of the cost of a marina at the point of highest investment, that is, immediately after a redevelopment. The level of external support at the time of redevelopment or construction of additional facilities will be reduced in proportion to the level at which financiers consider the cash flows and project are bankable.

We note that rents which are based on a known, revenue based formula, clearly documented in the concession agreements, will reduce the uncertainty and angst historically associated with triennial market value rent adjustments, will lock the authorities into the success of the industry, and will be considerably cheaper to administer by the authorities over the longer term.

## **Exceptions - Sustainable Rent**

### **Fuel Depots**

One of the marinas in our study is considering rebuilding its fuel facilities. The estimated capital cost of building a fuel wharf is \$500,000. Previous studies provided to us for Australian fuel wharves estimated the capital cost at \$410,000 in 2007 dollars, and the annual running costs of a fuel dock of approximately \$185,000 per annum. Any tariff on fuel turnover should only apply above a minimum litres supplied threshold. For low sales depots, the provision of re-fuelling services needs to be seen as a public amenity facility that requires a subsidy/rent reduction, not a further tariff.

In our opinion if tariffs are to be levied to commercial marina operators on fuel turnover, this, together with likely escalating carbon taxes, fuel charges and environmental levies over the next five to ten years, will cause many operators to cease supplying fuel and convert the area to additional marina berths.

Smaller marinas appear to have insufficient turnover volume to justify the installation of fuel docks. In the current environment a fuel dock should be considered like a public amenity, no different to a public pump out facility at a marina, and that no turnover rent should be charged. In fact it is considered that the requirement for smaller marinas to provide re-fuelling points would therefore require an incentive, not a further levy upon fuel turnover.

A similar logic applies to any other public amenity provided by marinas, either as a regulatory requirement or to support Government policy. In order to maintain such facilities these should be identified, costed and a rental adjustment or subsidy negotiated with the authorities.

### **Retail Activities – Impact on Revenue-based Rent**

Our review also indicates that the 6% tariff on water revenue cannot be sustained upon retail gross revenue. It is considered that 1% – 3% would be the maximum tariff that could be levied on these income streams if levied on gross turnover on a case-by-case basis.

Alternatively a tariff at higher rates would be required to be based upon gross margin, not turnover, but such a system is considered cumbersome and ungainly to administer. Despite this we have set up the modules with two levels of revenue for retail. The second level can be used for cost of goods sold and entered as a negative figure. This will cause the 6% maximum rental tariff rate to be applied to gross trading profit from retail type activities, and not to total turnover.

An example is Marina D module 2 in Appendix 1. If 6% rental is charged on gross turnover instead of gross margin, the yield to investors would decrease from an already unsatisfactory 12.53% p.a. to a quite unsustainable 12.14% p.a.

### **Sub-tenant rentals – Impact on Revenue-based Rent**

Particular attention is drawn to any major building construction for office, retail or other commercial sub-tenants. The development of such facilities should take into account the normal factors in a commercial property investment.

Any allowance for the tariffs charged by the authorities is similar to a second municipal rate on the property. The justification for the authorities imposing this tariff is the subsidised provision of the land or seabed on or over which the building stands. This will need to be analysed on a case by case basis, as this ‘land rent’ may be unjustified (for example, if built on adjacent land owned by the operator) or may simply make a development uneconomic.

Four of the case studies have sufficient sub-tenanted property investment to allow a separate analysis using module 3, the exception being Marina E. We have allocated overhead costs in consultation with the Marina operators, and in these cases, the return on investment is roughly in line with their overall return on the marina from berthing and other water revenue generating facilities.

However we emphasise that each marina’s circumstances need to be considered individually. Where the feasibility of a new development is being analysed, we recommend a flexible policy be adopted aimed at optimising returns to all parties and maximising services to the public.

### **Yields Implicit in Marina Sales**

We have been advised by various members of Marine Queensland that marina businesses have historically been selling on a yield of between 6-9%. This is consistent with our own experience in Queensland, although we would expect that current higher interest rates levels may push yields higher if the same marinas were sold today.

During the recent GFC, according to business valuers these yields have been at the high end with few sales, but yields of 9-9.5%. The yield on sale refers to the earnings yield calculated using EBITDA as the measure of earnings, divided by the purchase price of the marina as the measure of the sum invested.

By comparison, the Projected Yield which we use in our report is the IROR on the marina investment over the concession lease term. It is derived from a similar base, but it is a quite different measure. It measures the return over the life of the investment, whereas the yield on sale measures the initial, headline yield. In calculating IROR, we project the cash flow (which is the first year’s EBITDA) over the term of the investment to reflect inflation and real revenue growth, as discussed in

our report. These projections provide a 25 or 50 year cash inflow, which is then used to calculate the IROR on the initial investment. If the investment period is long enough, this IROR can be higher than the yield on sale because of both the inflation effect and the real revenue growth effect.

The yield achieved on marina sales can be compared to the Initial Yield in the table below. If the owner of one of the 5 Marinas included as case studies in our report were to sell the marina at the start of the analysis term, the yield would be the first year's earnings (EBITDA) divided by the selling price. As each analysis starts at the beginning of the assumed 25 year cycle, the investment is the original cost (or total cost after restoring to 'as new' status) of developing the marina. If we assume this investment amount is also the market value of the marina that the current owner, or a purchaser, would pay for the investment, then the yield at the time of sale equals the Initial Yield in the table. The Initial Yield has been calculated as the first year's earnings (EBITDA) divided by the initial investment used in the model.

The following table show the initial yield for the 5 Marinas.

MARINA	Projected Yield (IROR) and Sustainable Rent		Initial Yield
	No Rent	6% / 2% Rent	
A	15.18%	14.14%	9.98%
B	12.29%	11.27%	7.20%
C	14.96%	13.67%	9.00%
D	14.50%	13.35%	9.03%
E	14.15%	13.29%	9.44%

We note that the initial yields calculated by us on 4 of these marinas are within the range experienced during the GFC.

Yields achieved on actual sales vary with unique factors applicable to each marina. Two of the major reasons for such variations referred to in our report are development potential and synergistic benefits. A synergistic benefits example is a marina purchased to be an outlet for a boat seller.

As marina concessions create an amortising investment, with no capital gain at the end of the life cycle (except for the expectation of a concession extension), the marina concessions do not have the expectation of capital gains that would be attached to most private sector businesses. As a result of quite complex mathematical calculations, the yield will tend to rise towards the end of the 25 year life cycle of a marina, all other things being equal. However our model's Initial Yield has been calculated using the assumption that the marina infrastructure has been recently restored to "as new" condition, resulting in all marinas Initial Yield commensurate with the early years of a marina life cycle.

**Disclaimer**

The above has been prepared by Pitcher Partners based on material, representations and information provided to us we have not performed an audit or independent review of the information provided to us.

We reserve the right to review all calculations included or referred to in this opinion, and, if we consider it necessary, to revise our opinion in light of any additional information which becomes known to us after the date of this report

Yours faithfully



Deborah Cartwright, Director  
**Pitcher Partners NSW Corporate Pty Limited**

## **Appendices**

### **Appendix 1 Financial Model and Analysis**

- A. Model Inputs and Analysis
- B. Sustainable Rent Model Template
- C. Model output:
  - . Marina A
  - . Marina B
  - . Marina C
  - . Marina D
  - . Marina E

### **Appendix 2 Private Equity Yield Requirements**

### **Appendix 3 International and National Comparisons**

## A. MODEL INPUTS AND ANALYSIS

### Appendix 1 Financial Model and Analysis

#### A. Model Inputs and Analysis

The model used in the marina study is designed to provide a simple tool to calculate an appropriate percentage of revenue to be levied as rent for any marina, using financial data from the marina and testing sustainability of rent against a range of economic conditions.

This Part A of Appendix 1 describes how the model works, and the assumptions used to provide comparable results for marina investments with business and improvements of different ages and levels of development. This Part A also describes the adjustments needed to current financial data in order to generate typical year cashflows, spread progressive capital costs (such as non-annual major repairs and mid-cycle refurbishment) and analyse the financial performance over the entire investment life cycle.

Part B sets out the template for gathering financial information from participating marinas, along with some instructions on the preparation and additional information required to enable rational, comparative analysis between the 5 participating marinas, and with other marinas from other studies.

Nothing in this analysis methodology, nor the assumptions used in the financial model, are intended to give the impression that a marina investment requires a single capital investment every 25 years. We argue for mid-term lease extensions where economic feasibilities justify a major additional capital investment due to changing demand for the marinas services, to enhance the quality of facilities or to optimise the marina site's economic potential.

#### Detailed analysis

The model is divided into two worksheets;

- The '**Input!**' worksheet contains economic assumptions adopted by us, the capital investment and fuel data inputs from the concession holder together with the proposed authorities rental rates;
- The '**Analysis!**' worksheet calculates the sustainable rent based on the required rate of return on investment.

Provided the capital cost of investments can be separately identified and that direct revenues, direct expenses and overhead costs can be reasonably allocated, the model can also be utilised to allow for 4 separate divisions to be analysed as follows:

- Module 1 - Water revenues
- Module 2 - Hardstand/repair operations
- Module 3 - Rental/sub - tenant activities
- Module 4 - Fuel depot or Other Business Activity

A different tariff rate can then be applied to each division depending on the amount that can be sustained / supported within that division. For example, Pitcher Partners have utilised a module which demonstrates that the fuel depots and other retail activities cannot sustain the same levels of turnover rent. We note a maximum of 2% for retail activities (or use gross revenue, not turnover), but as fuel depots on marinas have low turnover compared to commercial marinas, and are usually provided as a public amenity and not as a commercial investment, we recommend that no rental should be charged on fuel revenues.

If a marina cannot be broken down into divisional income and expense units or if a reasonable assumption cannot be made allocating income and expenditure across business units then only one module is utilised for the entire marina in our analysis.

## **Model Inputs**

Attached as Appendix 1B is a summary of the model inputs or information requested of a typical marina operator. These inputs covered the following areas:

### ***Capital Investment - Value of Improvements***

The Pitcher Partners analysis is based on performance over 25 years, which is the physical operating lifecycle of a marina before a complete re-development of the improvements is required to be undertaken in order to maintain revenue and operating cost efficiencies. An older facility can still be operated, but will not generate the same income levels. The capital investment is either:

- 1) New or re-development - If a complete re-development is planned, the initial investment is the projected cost of the project, including capitalised interest and all on-costs such as development management and design costs; or
- 2) Mid-life cycle - In all other cases, not subject to a major redevelopment in the near future, the cost to restore the marina to 'as new' status is added to the value of the existing improvements. This means that the full cost of bringing the marina to an as new condition, able to provide the quality of service and amenity of a new facility over the 25 year life cycle is analysed by the model.<sup>7</sup>

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<sup>7</sup> The alternative approach for analysis from a starting point some years into a 25 year life cycle is to provide for re-development mid-term. This approach is more difficult to model, as it requires an estimate of a future residual value at the end of the original 25 years. The analysis results will remain the same if fair and consistent estimates of future re-development costs and residual value are included in the inputs to a model which uses this alternative approach.

For all marinas, existing improvements which would not require replacement or redevelopment on a similar basis, such as car parking, are excluded from the calculation of the investment cost. For this reason the 50 year analysis assumes capital expenditure in year 26 equal to 75% of the initial investment (escalated at CPI for 25 years).

Nor do we allow any value for the goodwill which may have been attached to the marina business before the re-development to be included in the cost of the investment when performing our calculations.

### ***Typical Year Revenue and Expenses***

In order to generate the cash flow for a typical year the revenue, expenses and non-cash items have been identified from recent trading results provided by marina operators. Results are then projected out over a 50 year period.

The model provides for revenue to be escalated at either;

- Movements in CPI; or
- Real growth in revenue (or decline) as compared to CPI.

The model escalates all expenses in accordance with movements in CPI.

As the marina leases are a licence for a concession for a fixed period, capital cash flows comprise the initial investment and any major periodic capital outlays, such as replacement of plant or a major refurbishment. In arriving at annual figures for ongoing maintenance and periodic refurbishment, we have calculated the total expected expenditure in nominal dollars over the 25 year economic life of the facilities and then allocated this evenly over the 25 years. The resultant periodic charge for repairs and maintenance in the cash flows are then escalated in line with the CPI as are all other operating costs.

In reality the expenditure will be more “lumpy” as the periodic refurbishment may take place say every 5 years.

As the model has been designed to work on the basis of EBITDA, depreciation and amortisation are excluded as outgoings from the cash flow as they do not represent physical cash outflows in any particular year. However in calculating the IROR on the investment, the amortisation of the capital expenditure is allowed for as this investment in the concession is assumed to have zero realisable value at the end of the concession term.

The model contains a separate debt module (discussed further on) used to analyse the impact of borrowing upon marina operators.

## B. SUSTAINABLE RENT MODEL TEMPLATE

### Appendix 1 Financial Model and Analysis

#### B. Sustainable Rent Model Template

Pitcher Partners provided the participating marina owners with the following information request and the attached template to assist in the provision of financial information in a format commensurate with the analysis model. Further information was provided on request where required for the purposes of the model analysis and interpretation of the outputs.

'Please find attached as a template the analysis model to be used to calculate sustainable rent charges by the Queensland Department of Transport and The Port of Brisbane Authority (the **authorities**), based on the financial results to be provided to us in confidence.

Thank you for agreeing to be a part of the Pitcher Partners marina study. Please find attached the spreadsheet that need to be completed. We need a minimum of 3 years of P&L's and Balance Sheet information but if you are able to complete 5 years it would be appreciated. Some points in relation to completing the spreadsheet:

- We need marina related information only (e.g. berthing, hardstand, storage, tenants, fuel depot etc), so other non-related marina activities (such as residential) should be excluded.
- If you do not have some of the data broken down by department or area, just enter it in the 1st column of the spreadsheet or estimate a breakup.
- Overhead costs, such as administration costs – if you do not have a usual basis for allocating these costs by department or area, please provide the cost total, and Pitcher Partners will allocate in proportion to Gross Profit;
- Balance Sheet – only the latest available financial year balance sheet needs to be broken down by department or area. Please allocate the asset values for capital works, improvements, plant, equipment and trading stock to the relevant departments. The only liabilities to be allocated by department are Accounts Payable.
- any financial forecasts which you have prepared would be appreciated;
- an estimate of the total capital investment in the marina, together with an estimate of the cost to restore all facilities to 'as new' condition. This is to provide us with an estimate of the capital replacement cost for the entire marina facilities at current cost.
- Capital costs of any planned expansion. We would appreciate a copy of your investment analysis, including financial forecasts and any banking applications seeking funding for the development.

The model allows you to use up to 4 modules to separate operations into 4 divisions, water/berthing revenues, hardstand/repair operations, rental/sub-tenant activities and fuel depot. A different tariff rate can then be applied to each division please note this can only be done provided:

- realistic assumptions can be made separately identifying the capital cost of investment between divisions;
- direct revenues and expenses can be allocated to each division; and
- overhead costs can be reasonably allocated between the each division.

If your marina cannot be broken down into divisional income and expense (direct and allocated) simply use module 1 for the entire marina.

### **Capital Cost Inputs**

If the marina is due for a major re-development, the investment is the total acquisition plus development cost, including capitalised construction interest and all on-costs, such as development management and design costs.

For other marinas, use the current value plus any expenditure required to restore the facility to 'as new' status, capable of operation at current revenue levels for 25 years without further major capital works. For credibility with the authorities, this should start with your balance sheet values and then assume a reasonable estimate to restore to an 'as new' status. This allows us to analyse sustainable rents on the basis of a 25 year life cycle for marinas using a derived initial investment at the start of the investment life cycle.

### **Revenue and Expenses Inputs**

We only need projected income and expenses for 2009/10 year – prepared as if it is a typical year.

We will use a generic escalation for CPI and real growth in revenue and costs. Please include your expectation of real growth in revenue and costs, as we will use the group's expectation in preparing the base case sustainable rents for inclusion in the paper to the authorities.

Please identify the fuel and retail turnover and estimate the cost of goods sold and related costs. If you have time, please also provide a breakdown in modules 1 and 2 between Water Revenue and Hardstand/repair operations. The third module is for Rental/sub-tenant activities, to be used if this is a significant identifiable investment with a different investment profile.

Please note that the suggested revenue and expense input lines are not definitive and are merely based on our review of sample profit and loss accounts. These can be adjusted to suit your own income and expenditure line items what is important is the break down into modules. In the alternative please feel free to provide Pitcher Partners (in the strictest confidence) with your own profit and loss and we will input the data directly.

## **Use of Model**

We note that the model is a simplified analysis for the purposes of negotiation with the authorities.

If your input provides clear examples to illustrate the Marine Queensland case on sustainable rent, please supply a copy in confidence to Pitcher Partners with your comments.

We thank those who have provided financial information on marinas, and would appreciate your comments on our assumptions and on your marinas projections and sustainable rent. In particular, we would ask that you consider the calculation of the initial investment at the start of a 25 year marina life cycle, and comments on any items which need to be varied in order to make the 2009/10 year forecasts in line with your typical year.

B. SUSTAINABLE RENT MODEL TEMPLATE

INPUT Template		@ June 2009		Marina Name:				
ASSETS		Total	Area 1 Berthing or Total	Area 2 Hardstand/ Repairs	Area 3 Rental/ Subtenants	Area 4 Dry Storage	Module 5 Other	
<b>Current Assets</b>								
Total Chequing/Savings	0.00							
<b>Accounts Receivable</b>								
Accounts Receivable	0.00							
Total Accounts Receivable	0.00	0.00	0.00	0.00	0.00		0.00	
<b>Other Current Assets</b>								
Undeposited Funds	0.00							
Due from Credit Cards	0.00							
Fuel in Hand	0.00							
Hire Purchase Interest Prepaid	0.00							
PAYG Tax Instalments	0.00							
Stock In Hand	0.00							
Total Other Current Assets	0.00	0.00	0.00	0.00	0.00		0.00	
<b>Total Current Assets</b>	0.00							
<b>Fixed Assets</b>								
<b>Marina Buildings</b>								
Depreciation	0.00							
Original Cost	0.00							
Total Marina Buildings	0.00							
<b>Motor Vehicles &amp; Boats</b>								
Depreciation	0.00							
Original Cost	0.00							
Total Motor Vehicles & Boats	0.00							
<b>Office Equipment</b>								
Depreciation	0.00							
Original Cost	0.00							
Total Office Equipment	0.00							
<b>Plant &amp; Equipment</b>								
Depreciation	0.00							
Original Cost	0.00							
Total Plant & Equipment	0.00	0.00	0.00	0.00	0.00		0.00	
<b>Total Fixed Assets</b>	0.00							
<b>TOTAL ASSETS</b>	0.00	0	0	0	0		0	
INPUT Template		@ June 2009		Marina Name:				
LIABILITIES		Total	Area 1 Berthing or Total	Area 2 Hardstand/ Repairs	Area 3 Rental/ Subtenants	Area 4 Dry Storage	Module 5 Other	
<b>Current Liabilities</b>								
<b>Accounts Payable</b>								
Accounts Payable	0.00							
Total Accounts Payable	0.00							
Total Credit Cards	0.00							
Total Other Current Liabilities	0.00	0.00	0.00	0.00	0.00		0.00	
<b>Total Current Liabilities</b>	0.00							
<b>Total Long Term Liabilities</b>	0.00							
	0.00	0.00	0.00	0.00	0.00		0.00	
<b>TOTAL LIABILITIES</b>	0.00							
	0.00	0.00	0.00	0.00	0.00		0.00	
<b>NET ASSETS</b>	0.00							
	0.00	0.00	0.00	0.00	0.00		0.00	

	Total	Area 1 Berthing or Total	Area 2 Hardstand/ Repairs	Area 3 Rental/ Subtenants	Area 4 Dry Storage	Area 5 Other
<b>Income</b>						
Berth Fees						
Mooring Fees						
Live aboard fees						
Fuel & Oil Sales						
Labour						
Materials						
Power Usage						
Rent Received						
Other (please provide details)						
<b>Total Income</b>	0	0	0	0		0
<b>Cost of Goods Sold</b>						
Fuel Purchases (To Resell)						
Other (please provide details)						
<b>Total COGS</b>	0	0	0	0		0
<b>Gross Profit</b>	0	0	0	0		0
<b>Expense</b>						
Accountancy Fees						
Advertising & Promotion						
Bank Charges						
Cleaning & Refuse						
Computer Accessories & Software						
Depreciation						
Donations						
Electricity						
Environment Protection						
Fuel & Oil (Marina Use)						
General Expenses						
Hire of Plant & Equipment						
Insurance						
Interest Paid						
Land Tax						
Licences, Registrations & Fees						
Motor Vehicle Expenses						
Office Supplies & Maintenance						
Payroll Tax						
Postage						
Rates & Taxes						
Rent & Lease Fees						
Repairs & Maintenance						
Boats & Tender Maintenance						
Building Maintenance						
Mooring Maintenance						
Slipway Maintenance						
Wharf & Berth Maintenance						
<b>Total Repairs &amp; Maintenance</b>						
Safety Equipment & Clothing						
Security						
Staff Amenities & Training						
Subscriptions & Industry Fees						
Superannuation						
Telephone, Fax & Internet						
Tool & Plant Repair & Replace						
Travelling Expenses						
Wages (Gross)						
Other (please provide details)						
<b>Total Expense</b>	0.00	0	0	0		0
<b>Net Profit</b>	0.00	0	0	0		0

**C. MODEL OUTPUT - Marinas A to E****C. Model Output**

Set out in the attached appendices C to G is the model output for the five marinas which were selected for input into the model.

Each Appendix includes a brief summary of the particular marina included in the case study, the investment assumptions, initial year's operating cash flow for each module, and the yield or IROR achieved for each business module and for the total marina.

Results are provided for each marina based on rentals at 6% and 8% of turnover, and with 2% on fuel turnover. Retail and hardstand repair turnover is adjusted for cost of goods sold where these are significant, and the information has been provided by the concession holder.

For the entire 25 year period, each of the summary and detailed results tables assume costs escalate in line with CPI at 3% p.a. and revenue escalates at 4% p.a., achieving real growth of 1% p.a.

25 year concessions for each module and the total marina are included in the summary tables for the case studies. The results for 15, 20 and 50 years are summarised for the total marina only.

The 15 year and 20 year IROR by module and for the total marina can be found in the detailed tables in each of these Appendices.

## MARINA A

**Marina A**

Marina A is a full service South-East Queensland marina, but with no fuel depot.

Marina A would benefit from significant re-development, as the original staged development completed over 20 years ago would benefit from modernised facilities and a new configuration to attract changing demand. The owners are considering increasing berthing capacity and other marina facilities to better utilise the seabed and dry lease areas.

The capital investment is represented by the historical cost of the existing assets, plus an allowance for the cost of restoration to 'as new' condition. The owner has also provided additional investment figures for capital costs required at the start of the new term, which is imminent. Therefore the proposed expansion has not been modelled in this analysis.

**Projected IROR - Lifecycle of Marina**

Marina A		Projected IROR		
		No Rent	6% / 2% Rent Structure	8% / 2% Rent Structure
Module 1	Berth/Water	16.03%	14.82%	14.42%
Module 2	Hardstand	4.56%	3.47%	3.08%
Module 3	Sub-tenants	12.74%	11.85%	11.55%
Module 4	Fuel depot	Not in Use	Not in Use	Not in Use
Total Marina	25 years	14.59%	13.45%	13.06%
Total Marina	50 years	15.18%	14.14%	
Total Marina	20 years	13.62%	12.37%	11.94%
Total Marina	15 years	11.47%	10.05%	9.56%

Annual Rent Rent/Turnover	Concession Rent - Proposed Review	Concession Rent - Current	6% / 2% Rent Structure	8% / 2% Rent Structure
	\$417,697 16.89%	\$278,485 11.71%	\$142,673 6.00%	\$190,231 8.00%

Assumptions for Table:

Costs escalate at CPI = 3.0% p.a.

Real Revenue growth at 1.0% p.a above CPI

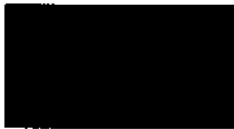
Rent Structure is 6% or 8% of water revenue

Results in the Table for the business Modules are 25 year term analyses only

The concession rental has increase at close to the growth rate for Total Revenue over the past four years. However, the authorities have indicated they will raise the concession rental by applying an increased impost on land and improvements, and also using a high "alternative zoning" valuation. This would result in the concession rental spiking upward by over 50% immediately.

We note from the above table that over a 50 year term, the IROR does not exceed 15% per annum for Marina A under any rental structure.

**SUSTAINABLE RENT - Lifecycle of Marina**



- Inflation
- Real annual change in berth prices
- Real annual change in costs
- Remaining lease term in years
- Remaining useful life of construction after lease expiry
- Debt service cover ratio
- Debt Interest Cost

Total cost of construction outside leased area (\$k)  
 Total cost of buildings and other improvements within leased area  
 Working Capital & Inventory  
 Cost to replace or restore to 'as new' condition  
**Capital Investment**  
**Concession Rent (% of revenue)**  
 Year 26 refurbishment cost

8%

**Marina A**

**MARINA A**

	Module 1	Module 2	Module 3	
	BERTHS AND	HARDSTAND/	Rental Sub	
	MARINA BUILDING	REPAIR FACILITY	tenants	TOTAL
				-
				3,368,814
				347,426
				10,839,531
				14,555,771
				-
				22,311,839

## MARINA A

## Marina A

## RENTAL at 6% of Turnover/Fuel at 2%

	Escalation Rate - Revenue:	4.00%	4.00%	4.00%	4.00%
	Escalation Rate - Costs:	3.00%	3.00%	3.00%	3.00%
<b>SUSTAINABLE RENT - Lifecycle of Marina</b>	Year	2009	2010	2011	2012
<b>Module 1:</b>					
<b>BERTHS AND MARINA BUILDING</b>					
Berth revenue		1,989,811	2,069,403	2,152,179	2,238,267
Non-berth revenue		-	-	-	-
<b>Gross Revenue - Water</b>		<b>1,989,811</b>	<b>2,069,403</b>	<b>2,152,179</b>	<b>2,238,267</b>
Depreciation & amortisation		11687464	467,499	467,499	467,499
All other operating costs		586,544	604,140	622,264	640,932
Total expenses		<b>1,071,638</b>	<b>1,089,763</b>	<b>1,108,430</b>	
Net Accounting Profit before Tax (EBIT)			997,765	1,062,417	1,129,836
Cash flow before Interest, tax and Concession Rent	16.03%	-11,687,464	1,465,264	1,529,915	1,597,335
Concession Rent	6%		124,164	129,131	134,296
Cash flow before interest and tax (EBITDA)	14.82%	-11,687,464	1,341,099	1,400,785	1,463,039
Equity return before interest & tax - lease term 20 years	13.86%				
Equity return before interest & tax - lease term 15 years	11.75%				
Payback year					
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>	<b>6%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			
<b>Module 2:</b>					
<b>HARDSTAND/ REPAIR FACILITY</b>					
Revenue		474,222	493,191	512,918	533,435
Other revenue		304,682	316,869	329,544	342,725
<b>Gross Revenue - Services</b>		<b>778,904</b>	<b>810,060</b>	<b>842,462</b>	<b>876,160</b>
Depreciation & amortisation		1763755	70,550	70,550	70,550
All other operating costs		105,953	109,131	112,405	115,777
Total expenses		<b>1,799,663</b>	<b>1,829,631</b>	<b>1,863,415</b>	<b>1,897,877</b>
Net Accounting Profit before Tax (EBIT)			3,359	419	4,382
Cash flow before interest, tax and Concession Rent	4.56%	-1,763,755	67,191	70,970	74,933
Concession Rent	6%		10,579	11,002	11,443
Cash flow before interest and tax (EBITDA)	3.47%	-1,763,755	56,611	59,967	63,490
Equity return before interest & tax - lease term 20 years	1.06%				
Equity return before interest & tax - lease term 15 years	-3.31%				
Payback year					
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>	<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			
<b>Module 3:</b>					
<b>Rental Sub tenants</b>					
Revenue		127,082	132,165	137,452	142,950
- COGS		-	-	-	-
<b>Gross Revenue - Module 3</b>		<b>127,082</b>	<b>132,165</b>	<b>137,452</b>	<b>142,950</b>
Depreciation & amortisation		1104553	44,182	44,182	44,182
All other operating costs		21,795	22,449	23,123	23,816
Total expenses		<b>1,136,141</b>	<b>1,110,613</b>	<b>1,111,427</b>	<b>1,112,176</b>
Net Accounting Profit before Tax (EBIT)			65,534	70,147	74,951
Cash flow before interest, tax and Concession Rent	12.74%	-1,104,553	109,716	114,329	119,133
Concession Rent	6%	0	7,930	8,247	8,577
Cash flow before interest and tax (EBITDA)	11.85%	-1,104,553	101,786	106,082	110,556
Equity return before interest & tax - lease term 20 years	10.64%				
Equity return before interest & tax - lease term 15 years	8.13%				
Payback year					
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>	<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			
<b>MARINA TOTALS</b>					
Gross Revenue - all divisions			2,377,890	2,473,006	2,571,926
Cash flow before Interest, tax and Concession Rent	14.59%	-14,555,771	1,642,170	1,715,214	1,791,401
Concession Rent	6.00%		142,673	148,380	154,316
Cash flow before interest and tax (EBITDA)	13.45%	-14,555,771	1,499,497	1,566,834	1,637,085
Equity return before interest & tax - lease term 20 years	12.37%				
Equity return before interest & tax - lease term 15 years	10.05%				
Payback year					
Equity return before interest & tax - lease term 50 years	15.18%				
Commercial Debt (maximum serviced by cashflow)		7,497,484	749,748	783,417	818,543
Interest expense		9804154	749,748	749,748	746,382
Debt Outstanding		7,497,484	7,497,484	7,463,815	7,391,654
Tax Paid					
Cash flow: Interest Expense			2.00	2.09	2.19
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>	<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			

## MARINA A

## Marina A

## RENTAL at 8% of Turnover/Fuel at 2%

	Escalation Rate - Revenue:	4.00%	4.00%	4.00%	4.00%	
	Escalation Rate - Costs:	3.00%	3.00%	3.00%	3.00%	
<b>SUSTAINABLE RENT - Lifecycle of Marina</b>	Year	2009	2010	2011	2012	
<b>Module 1:</b>						
<b>BERTHS AND MARINA BUILDING</b>						
Berth revenue		1,989,811	2,069,403	2,152,179	2,238,267	
Non-berth revenue		-	-	-	-	
<b>Gross Revenue - Water</b>			<b>2,069,403</b>	<b>2,152,179</b>	<b>2,238,267</b>	
Depreciation & amortisation		11687464	467,499	467,499	467,499	
All other operating costs		586,544	604,140	622,264	640,932	
Total expenses			<b>1,071,638</b>	<b>1,089,763</b>	<b>1,108,430</b>	
Net Accounting Profit before Tax (EBIT)			997,765	1,062,417	1,129,836	
Cash flow before interest, tax and Concession Rent	16.03%	-11,687,464	1,465,264	1,529,915	1,597,335	
Concession Rent	8%		165,552	172,174	179,061	
Cash flow before interest and tax (EBITDA)	14.42%	-11,687,464	1,299,711	1,357,741	1,418,273	
Equity return before interest & tax - lease term 20 years	13.42%					
Equity return before interest & tax - lease term 15 years	11.25%					
Payback year			-11,687,464	10,387,752	9,030,011	7,611,738
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>	<b>6%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>				
<b>Module 2:</b>						
<b>HARDSTAND/ REPAIR FACILITY</b>						
Revenue		474,222	493,191	512,918	533,435	
- COGS		304,682	316,869	329,544	342,725	
<b>Gross Revenue - Services</b>			<b>176,322</b>	<b>183,375</b>	<b>190,710</b>	
Depreciation & amortisation		1763755	70,550	70,550	70,550	
All other operating costs		105,953	109,131	112,405	115,777	
Total expenses			<b>179,681</b>	<b>182,955</b>	<b>186,327</b>	
Net Accounting Profit before Tax (EBIT)			3,959	419	4,382	
Cash flow before interest, tax and Concession Rent	4.56%	-1,763,755	67,191	70,970	74,933	
Concession Rent	8%		14,106	14,670	15,257	
Cash flow before interest and tax (EBITDA)	3.08%	-1,763,755	53,085	56,300	59,676	
Equity return before interest & tax - lease term 20 years	0.60%					
Equity return before interest & tax - lease term 15 years	-3.87%					
Payback year			-1,763,755	1,710,670	1,654,370	1,594,694
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>	<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>				
<b>Module 3:</b>						
<b>Rental Sub tenants</b>						
Revenue		127,082	132,165	137,452	142,950	
- COGS		-	-	-	-	
<b>Gross Revenue - Module 3</b>			<b>132,165</b>	<b>137,452</b>	<b>142,950</b>	
Depreciation & amortisation		1104553	44,182	44,182	44,182	
All other operating costs		21,795	22,449	23,123	23,816	
Total expenses			<b>66,631</b>	<b>67,305</b>	<b>67,998</b>	
Net Accounting Profit before Tax (EBIT)			65,534	70,147	74,951	
Cash flow before interest, tax and Concession Rent	12.74%	-1,104,553	109,716	114,329	119,133	
Concession Rent	8%	0	10,573	10,996	11,436	
Cash flow before interest and tax (EBITDA)	11.55%	-1,104,553	99,143	103,333	107,697	
Equity return before interest & tax - lease term 20 years	10.31%					
Equity return before interest & tax - lease term 15 years	7.75%					
Payback year			-1,104,553	1,005,410	902,077	794,390
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>	<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>				
<b>MARINA TOTALS</b>						
Gross Revenue - all divisions			2,377,890	2,473,006	2,571,926	
Cash flow before interest, tax and Concession Rent	14.59%	-14,555,771	1,642,170	1,715,214	1,791,401	
Concession Rental to Authorities	8.00%	8.00%	190,231	197,840	205,754	
Cash flow before interest and tax (EBITDA)	13.06%	-14,555,771	1,451,939	1,517,374	1,585,647	
Equity return before interest & tax - lease term 20 years	11.94%					
Equity return before interest & tax - lease term 15 years	9.56%					
Payback year			-14,555,771	13,103,832	11,586,458	10,000,812
Commercial Debt (maximum serviced by cashflow)			2.0	2.0	2.0	
Interest expense		7,259,695	725,969	758,687	792,823	
Debt Outstanding		9505351	725,969	725,969	722,698	
Tax Paid		7,259,695	7,259,695	7,226,977	7,156,852	
Cash flow: Interest Expense			2.00	2.09	2.19	
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>	<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>				

## MARINA B

**Marina B**

Marina B is a full service South-East Queensland marina. Marina B data was prepared from Pitcher Partners' data template completed by the proprietor and from financial accounts and budgets supplied. The marina owners have been progressively re-developing marina facilities and incurring capital expenditure on new services in order to improve the poor current return on investment.

Marina B is a seabed lease only, with dry land freehold owned by the concession holder, and not the concession authority. Significant further development of the freehold is planned, and having the wet lease rental set based on its own, restricted permitted use only, was critical for the owners when considering further investment to optimise utilisation of the wet and dry lease areas.

The capital investment is represented by the historical cost of the existing assets, plus an allowance for the cost of restoration to 'as new' condition. The proposed expansion has not been modelled in this analysis.

**Projected IROR - Lifecycle of Marina**

Marina B		Projected IROR			
		Note	No Rent	6% / 2% Rent Structure	8% / 2% Rent Structure
Module 1	Berth/Water		9.88%	8.69%	8.29%
Module 2	Hardstand		18.53%	16.69%	16.07%
Module 3	Sub-tenants		9.90%	9.05%	8.76%
Module 4	Fuel depot		5.35%	4.86%	4.86%
Total Marina	25 years		11.34%	10.15%	9.75%
Total Marina	50 years		12.29%	11.27%	
Total Marina	20 years		10.02%	8.70%	8.25%
Total Marina	15 years		7.33%	5.79%	5.27%

Annual Rent Rent/Turnover	Concession Rent - 3 Years Ago	Concession Rent - Current	6% / 2% Rent Structure	8% / 2% Rent Structure
		\$126,290 6.88%	\$125,200 5.74%	\$130,849 6.00%

Assumptions for Table:

Costs escalate at CPI = 3.0% p.a.

Real Revenue growth at 1.0% p.a above CPI

Rent Structure is 6% or 8% of water revenue & 2% of fuel revenue

Results in the Table for the business Modules are 25 year term analyses only

The concession rental has increase at close to the growth rate for Total Revenue over the past three years. The authorities had reviewed the rental based on alternative use value, but when revised to take into account actual zoning and permitted use, the rent was revised down from a 200% increase to the pre-existing concession rental.

We note from the above table that over a 50 year term, the IROR does not exceed 15% per annum for Marina B under any rental structure.

MARINA B

Marina B

SUSTAINABLE RENT - Lifecycle of Marina



- Inflation
- Real annual change in berth prices
- Real annual change in costs
- Remaining lease term in years
- Remaining useful life of construction after lease expiry
- Debt service cover ratio
- Debt Interest Cost

Total cost of construction outside leased area (\$k)  
 Total cost of buildings and other improvements within leased area (\$k)  
 Working Capital & Inventory  
 Cost to replace or restore to 'as new' condition  
 Capital Investment  
 Concession Rent (% of revenue) 8%  
 Year 26 refurbishment cost

	Module 1 BERTHS AND MARINA BUILDING	Module 2 HARDSTAND / DRY STORE	Module 3 Rental Sub tenants	Module 4 Fuel Depot	TOTAL
					860,002
					275,042
					12,918,065
					14,053,109
					-
					21,636,159



## MARINA B

### Marina B

### RENTAL at 6% of Turnover/Fuel at 2%

	Escalation Rate - Revenue:	4.00%	4.00%	4.00%	4.00%
	Escalation Rate - Costs:	3.00%	3.00%	3.00%	3.00%
<b>SUSTAINABLE RENT - Lifecycle of Marina</b>	Year	2009	2010	2011	2012
<b>Module 1:</b>					
<b>BERTHS AND MARINA BUILDING</b>					
Berth revenue		1,083,292	1,126,624	1,171,689	1,218,556
Non-berth revenue		-	-	-	-
<b>Gross Revenue - Water</b>			<b>1,126,624</b>	<b>1,171,689</b>	<b>1,218,556</b>
Depreciation & amortisation		770,451	308,166	308,166	308,166
All other operating costs		551,280	567,818	584,853	602,399
<b>Total expenses</b>			<b>875,984</b>	<b>893,019</b>	<b>910,565</b>
<b>Net Accounting Profit before Tax (EBIT)</b>			<b>250,639</b>	<b>278,670</b>	<b>307,992</b>
<b>Cash flow before Interest, tax and Concession Rent</b>	9.88%	-7,704,151	558,805	586,836	616,158
Concession Rent	6%	-	67,597	70,301	73,113
<b>Cash flow before interest and tax (EBITDA)</b>	8.69%	-7,704,151	491,208	516,534	543,044
Equity return before interest & tax - lease term 20 years	7.05%				
Equity return before interest & tax - lease term 15 years	3.85%				
Payback year					
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>	<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			
<b>Module 2:</b>					
<b>HARDSTAND / DRY STORE</b>					
Revenue		665,268	691,879	719,554	748,336
Other revenue		-	-	-	-
<b>Gross Revenue - Services</b>			<b>691,879</b>	<b>719,554</b>	<b>748,336</b>
Depreciation & amortisation		240,128	96,049	96,049	96,049
All other operating costs		338,632	348,791	359,255	370,032
<b>Total expenses</b>			<b>444,840</b>	<b>455,304</b>	<b>466,081</b>
<b>Net Accounting Profit before Tax (EBIT)</b>			<b>247,039</b>	<b>264,250</b>	<b>282,255</b>
<b>Cash flow before Interest, tax and Concession Rent</b>	18.53%	-2,401,228	343,088	360,299	378,304
Concession Rent	6%	-	41,513	43,173	44,900
<b>Cash flow before interest and tax (EBITDA)</b>	16.69%	-2,401,228	301,575	317,126	333,404
Equity return before interest & tax - lease term 20 years	15.83%				
Equity return before interest & tax - lease term 15 years	13.87%				
Payback year					
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>	<b>11%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			
<b>Module 3:</b>					
<b>Rental Sub tenants</b>					
Revenue		308,846	321,200	334,048	347,410
- COGS		-	-	-	-
<b>Gross Revenue - Module 3</b>			<b>321,200</b>	<b>334,048</b>	<b>347,410</b>
Depreciation & amortisation		311,582	124,463	124,463	124,463
All other operating costs		80,342	82,752	85,235	87,792
<b>Total expenses</b>			<b>207,216</b>	<b>209,698</b>	<b>212,255</b>
<b>Net Accounting Profit before Tax (EBIT)</b>			<b>113,984</b>	<b>124,350</b>	<b>135,155</b>
<b>Cash flow before Interest, tax and Concession Rent</b>	9.90%	-3,111,582	238,448	248,813	259,618
Concession Rent	6%	0	19,272	20,043	20,845
<b>Cash flow before interest and tax (EBITDA)</b>	9.05%	-3,111,582	219,176	228,770	238,773
Equity return before interest & tax - lease term 20 years	7.53%				
Equity return before interest & tax - lease term 15 years	4.52%				
Payback year					
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>	<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			
<b>Module 4:</b>					
<b>Fuel Depot</b>					
Revenue		690,968	711,697	733,048	755,039
- COGS		571,194	588,330	605,980	624,159
<b>Gross Revenue - Module 4</b>			<b>123,367</b>	<b>127,068</b>	<b>130,880</b>
Depreciation & amortisation		836,148	33,446	33,446	33,446
All other operating costs		75,536	77,802	80,136	82,540
<b>Total expenses</b>			<b>111,248</b>	<b>113,582</b>	<b>115,986</b>
<b>Net Accounting Profit before Tax (EBIT)</b>			<b>12,119</b>	<b>13,486</b>	<b>14,894</b>
<b>Cash flow before Interest, tax and Concession Rent</b>	5.35%	-836,148	45,565	46,932	48,340
Concession Rent	2%	-	2,467	2,541	2,618
<b>Cash flow before interest and tax (EBITDA)</b>	4.86%	-836,148	43,098	44,391	45,722
Equity return before interest & tax - lease term 20 years	3.01%				
Equity return before interest & tax - lease term 15 years	-0.49%				
Payback year					
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>	<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			
<b>MARINA TOTALS</b>					
<b>Gross Revenue - all divisions</b>			<b>2,851,399</b>	<b>2,958,338</b>	<b>3,069,341</b>
<b>Cash flow before Interest, tax and Concession Rent</b>	11.34%	-14,053,109	1,185,906	1,242,880	1,302,419
Concession Rent	4.73%	-	130,849	136,059	141,476
<b>Cash flow before interest and tax (EBITDA)</b>	10.15%	-14,053,109	1,055,056	1,106,821	1,160,944
Equity return before interest & tax - lease term 20 years	8.70%				
Equity return before interest & tax - lease term 15 years	5.79%				
Payback year					
Equity return before interest & tax - lease term 50 years	12.29%				
<b>Commercial Debt (maximum serviced by cashflow)</b>					
Interest expense		5,275,281	527,528	553,411	580,472
Debt Outstanding		5,275,281	5,275,281	5,249,399	5,193,867
Tax Paid		-	-	-	-
Cash flow: Interest Expense			2.00	2.10	2.21
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>	<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			

## MARINA B

## Marina B

## RENTAL at 8% of Turnover/Fuel at 2%

	Escalation Rate - Revenue:	4.00%	4.00%	4.00%	4.00%	
	Escalation Rate - Costs:	3.00%	3.00%	3.00%	3.00%	
SUSTAINABLE RENT - Lifecycle of Marina	Year	2009	2010	2011	2012	
<b>Module 1:</b>						
<b>BERTHS AND MARINA BUILDING</b>						
Berth revenue		1,083,292	1,126,624	1,171,689	1,218,556	
Non-berth revenue		-	-	-	-	
<b>Gross Revenue - Water</b>			<b>1,126,624</b>	<b>1,171,689</b>	<b>1,218,556</b>	
Depreciation & amortisation		770,415	308,166	308,166	308,166	
All other operating costs		551,280	567,818	584,853	602,399	
<b>Total expenses</b>			<b>875,984</b>	<b>893,019</b>	<b>910,565</b>	
<b>Net Accounting Profit before Tax (EBIT)</b>			<b>250,639</b>	<b>278,670</b>	<b>307,992</b>	
Cash flow before interest, tax and Concession Rent	9.88%	-7,704,151	558,805	586,836	616,158	
Concession Rent	8%	-	90,130	93,735	97,484	
<b>Cash flow before interest and tax (EBITDA)</b>	<b>8.29%</b>	<b>-7,704,151</b>	<b>468,675</b>	<b>493,101</b>	<b>518,673</b>	
Equity return before interest & tax - lease term 20 years	6.59%					
Equity return before interest & tax - lease term 15 years	3.30%					
Payback year			-7,704,151	7,235,475	6,742,375	6,273,702
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>	<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>				
<b>Module 2:</b>						
<b>HARDSTAND / DRY STORE</b>						
Revenue		665,268	691,879	719,554	748,336	
- COGS		-	-	-	-	
<b>Gross Revenue - Services</b>			<b>691,879</b>	<b>719,554</b>	<b>748,336</b>	
Depreciation & amortisation		240,122	96,049	96,049	96,049	
All other operating costs		338,632	348,791	359,255	370,032	
<b>Total expenses</b>			<b>444,840</b>	<b>455,304</b>	<b>466,081</b>	
<b>Net Accounting Profit before Tax (EBIT)</b>			<b>247,039</b>	<b>264,250</b>	<b>282,255</b>	
Cash flow before interest, tax and Concession Rent	18.53%	-2,401,228	343,088	360,299	378,304	
Concession Rent	8%	-	55,350	57,564	59,867	
<b>Cash flow before interest and tax (EBITDA)</b>	<b>16.07%</b>	<b>-2,401,228</b>	<b>287,737</b>	<b>302,735</b>	<b>318,437</b>	
Equity return before interest & tax - lease term 20 years	15.16%					
Equity return before interest & tax - lease term 15 years	13.11%					
Payback year			-2,401,228	2,113,491	1,810,756	1,623,319
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>	<b>11%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>				
<b>Module 3:</b>						
<b>Rental Sub tenants</b>						
Revenue		308,846	323,200	334,048	347,410	
- COGS		-	-	-	-	
<b>Gross Revenue - Module 3</b>			<b>323,200</b>	<b>334,048</b>	<b>347,410</b>	
Depreciation & amortisation		311,582	124,463	124,463	124,463	
All other operating costs		80,342	82,752	85,235	87,792	
<b>Total expenses</b>			<b>207,216</b>	<b>209,698</b>	<b>212,255</b>	
<b>Net Accounting Profit before Tax (EBIT)</b>			<b>113,984</b>	<b>124,350</b>	<b>135,155</b>	
Cash flow before interest, tax and Concession Rent	9.90%	-3,111,582	238,448	248,813	259,618	
Concession Rent	8%	0	25,696	26,724	27,793	
<b>Cash flow before interest and tax (EBITDA)</b>	<b>8.76%</b>	<b>-3,111,582</b>	<b>212,752</b>	<b>222,089</b>	<b>231,825</b>	
Equity return before interest & tax - lease term 20 years	7.20%					
Equity return before interest & tax - lease term 15 years	4.14%					
Payback year			-3,111,582	2,898,800	2,676,741	2,444,916
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>	<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>				
<b>Module 4:</b>						
<b>Fuel Depot</b>						
Revenue		690,968	711,697	733,048	755,039	
- COGS		571,194	588,330	605,980	624,159	
<b>Gross Revenue - Module 4</b>			<b>123,367</b>	<b>127,068</b>	<b>130,880</b>	
Depreciation & amortisation		836,148	33,446	33,446	33,446	
All other operating costs		75,536	77,802	80,136	82,540	
<b>Total expenses</b>			<b>111,248</b>	<b>113,582</b>	<b>115,986</b>	
<b>Net Accounting Profit before Tax (EBIT)</b>			<b>12,119</b>	<b>13,486</b>	<b>14,894</b>	
Cash flow before interest, tax and Concession Rent	5.35%	-836,148	45,565	46,932	48,340	
Concession Rent	2%	-	2,467	2,541	2,618	
<b>Cash flow before interest and tax (EBITDA)</b>	<b>4.86%</b>	<b>-836,148</b>	<b>43,098</b>	<b>44,391</b>	<b>45,722</b>	
Equity return before interest & tax - lease term 20 years	3.01%					
Equity return before interest & tax - lease term 15 years	-0.49%					
Payback year			-836,148	793,050	748,859	702,937
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>	<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>				
<b>MARINA TOTALS</b>						
<b>Gross Revenue - all divisions</b>			<b>2,851,399</b>	<b>2,958,338</b>	<b>3,069,341</b>	
Cash flow before interest, tax and Concession Rent	11.34%	-14,053,109	1,185,906	1,242,880	1,302,419	
Concession Rental to Authorities	6.27%	6.10%	173,644	180,565	187,762	
<b>Cash flow before interest and tax (EBITDA)</b>	<b>9.75%</b>	<b>-14,053,109</b>	<b>1,012,262</b>	<b>1,062,315</b>	<b>1,114,657</b>	
Equity return before interest & tax - lease term 20 years	8.25%					
Equity return before interest & tax - lease term 15 years	5.27%					
Payback year			-14,053,109	13,040,846	11,978,531	10,883,874
Commercial Debt (maximum serviced by cashflow)			2.0	2.0	2.0	
Interest expense		5,061,311	506,131	531,158	557,329	
Debt Outstanding		5,061,311	5,061,311	5,036,285	4,982,584	
Tax Paid						
Cash flow: Interest Expense			2.00	2.10	2.21	
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>	<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>				

## MARINA C

*Marina C*

Marina C is a full service marina located in South-East Queensland. Marina C data was prepared from the data template supplied to the proprietor and other supporting information which they provided to Pitcher Partners. The capital investment represents the actual acquisition and development cost since acquisition of the existing marina facilities, with further provision for costs associated with restoration to 'as new' condition at current prices.

Marina C is different would benefit from redevelopment of facilities, from reformatting of the berthing mix and from development of additional facilities. A major impediment to funding the required additional investment has been the extreme concession rental hikes and inadequate concession term

## Projected IROR - Lifecycle of Marina

Marina C		Projected IROR		
		No Rent	6% / 2% Rent Structure	8% / 2% Rent Structure
Module 1	Berth/Water	14.41%	12.81%	12.26%
Module 2	Hardstand	22.73%	20.84%	20.20%
Module 3	Sub-tenants	8.40%	7.49%	7.18%
Module 4	Fuel depot	3.77%	3.49%	3.49%
Total Marina	25 years	14.28%	12.82%	12.33%
Total Marina	50 years	14.96%	13.67%	
Total Marina	20 years	13.24%	11.64%	11.09%
Total Marina	15 years	10.98%	9.15%	8.52%

Annual Rent Rent/Turnover	Concession Rent - 4 Years Ago	Concession Rent - Current	6% / 2% Rent Structure	8% / 2% Rent Structure
		\$277,293 15.20%	\$509,359 20.13%	\$152,555 6.00%

Assumptions for Table:

Costs escalate at CPI = 3.0% p.a.

Real Revenue growth at 1.0% p.a above CPI

Rent Structure is 6% or 8% of water revenue

Results in the Table for the business Modules are 25 year term analyses only

The concession rental has increase by 84% while growth rate for Total Revenue has totalled only 26% over the past four years. The authorities have indicated in negotiations a review methodology which would raise the concession rental by up to a further 40%, despite the rental now being at 3 times sustainable rental level.

We note from the above table that over a 50 year term only, the IROR does not exceed 15% per annum for Marina C under Pitcher Partners recommended maximum rental structure.

MARINA C

**SUSTAINABLE RENT - Lifecycle of Marina**

Inflation	
Real annual change in berth prices	
Real annual change in costs	
Remaining lease term in years	
Remaining useful life of construction after lease expiry	
Debt service cover ratio	
Debt Interest Cost	
Total cost of construction outside leased area (\$k)	
Total cost of buildings and other improvements within leased area (\$k)	
Working Capital & Inventory	
Cost to replace or restore to 'as new' condition	
Capital Investment	
Concession Rent (% of revenue)	8%
Year 26 refurbishment cost	

**Marina C**



	Module 1 BERTHS AND MARINA BUILDING	Module 2 HARDSTAND/ REPAIR FACILITY	Module 3 Rental Sub tenants	Module 4 Fuel Depot	TOTAL
					-
					5,219,988
					287,703
					6,663,772
					12,171,463
					-
					18,663,466

MARINA C

Marina C		RENTAL at 6% of Turnover/Fuel at 2%				
	Escalation Rate - Revenue:	4.00%	4.00%	4.00%	4.00%	
	Escalation Rate - Costs:	3.00%	3.00%	3.00%	3.00%	
SUSTAINABLE RENT - Lifecycle of Marina		Year	2009	2010	2011	2012
<b>Module 1:</b>						
<b>BERTHS AND MARINA BUILDING</b>						
Berth revenue		1,703,478	1,771,617	1,842,482	1,916,181	
Non-berth revenue						
Gross Revenue - Water			1,771,617	1,842,482	1,916,181	
Depreciation & amortisation		760,580	304,232	304,232	304,232	
All other operating costs		936,715	964,816	993,761	1,023,574	
Total expenses			1,269,048	1,297,993	1,327,806	
Net Accounting Profit before Tax (EBIT)			502,569	544,489	588,375	
Cash flow before interest, tax and Concession Rent	14.41%	-7,605,806	806,801	848,721	892,608	
Concession Rent	6%		106,297	110,549	114,971	
Cash flow before interest and tax (EBITDA)	12.81%	-7,605,806	700,504	738,172	777,637	
Equity return before interest & tax - lease term 20 years	11.60%					
Equity return before interest & tax - lease term 15 years	9.06%					
Payback year			-7,605,806	6,905,301	6,167,130	5,389,493
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>		<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			
<b>Module 2:</b>						
<b>HARDSTAND/ REPAIR FACILITY</b>						
Revenue		515,500	536,120	557,564	579,867	
Other revenue						
Gross Revenue - Services			536,120	557,564	579,867	
Depreciation & amortisation		1,749,959	69,998	69,998	69,998	
All other operating costs		206,924	213,132	219,526	226,112	
Total expenses			283,130	289,524	296,110	
Net Accounting Profit before Tax (EBIT)			252,989	268,040	283,757	
Cash flow before interest, tax and Concession Rent	22.73%	-1,749,959	322,988	338,038	353,755	
Concession Rent	6%		32,157	33,454	34,792	
Cash flow before interest and tax (EBITDA)	20.84%	-1,749,959	290,830	304,585	318,963	
Equity return before interest & tax - lease term 20 years	20.27%					
Equity return before interest & tax - lease term 15 years	18.82%					
Payback year			-1,749,959	1,459,139	1,154,554	835,601
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>		<b>22%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			
<b>Module 3:</b>						
<b>Rental Sub tenants</b>						
Revenue		208,694	217,042	225,723	234,752	
- COGS						
Gross Revenue - Module 3			217,042	225,723	234,752	
Depreciation & amortisation		210,997	84,399	84,399	84,399	
All other operating costs		77,987	80,327	82,736	85,219	
Total expenses			164,725	167,135	169,617	
Net Accounting Profit before Tax (EBIT)			52,316	58,588	65,135	
Cash flow before interest, tax and Concession Rent	8.40%	-2,109,972	136,715	142,987	149,534	
Concession Rent	6%	0	13,022	13,543	14,085	
Cash flow before interest and tax (EBITDA)	7.49%	-2,109,972	123,692	129,443	135,449	
Equity return before interest & tax - lease term 20 years	5.76%					
Equity return before interest & tax - lease term 15 years	2.41%					
Payback year			-2,109,972	1,986,280	1,856,836	1,721,328
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>		<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			
<b>Module 4:</b>						
<b>Fuel Depot</b>						
Revenue		359,967	370,766	381,869	393,345	
- COGS		308,087	317,329	326,849	336,655	
Gross Revenue - Module 4			53,436	55,039	56,690	
Depreciation & amortisation		705,726	28,229	28,229	28,229	
All other operating costs		20,825	21,450	22,093	22,756	
Total expenses			49,679	50,322	50,985	
Net Accounting Profit before Tax (EBIT)			3,757	4,717	5,705	
Cash flow before interest, tax and Concession Rent	3.77%	-705,726	31,986	32,946	33,934	
Concession Rent	2%		1,069	1,101	1,134	
Cash flow before interest and tax (EBITDA)	3.49%	-705,726	30,918	31,845	32,801	
Equity return before interest & tax - lease term 20 years	1.46%					
Equity return before interest & tax - lease term 15 years	-2.31%					
Payback year			-705,726	674,806	647,963	610,162
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>		<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			
<b>MARINA TOTALS</b>						
Gross Revenue - all divisions			2,895,544	3,007,658	3,124,145	
Cash flow before interest, tax and Concession Rent	14.28%	-12,171,463	1,798,490	1,862,692	1,928,831	
Concession Rent	5.35%		152,555	158,647	164,982	
Cash flow before interest and tax (EBITDA)	12.82%	-12,171,463	1,645,935	1,704,045	1,763,813	
Equity return before interest & tax - lease term 20 years	11.64%					
Equity return before interest & tax - lease term 15 years	9.15%					
Payback year			-12,171,463	11,025,329	9,831,443	8,556,634
Equity return before interest & tax - lease term 50 years	14.96%		2	2	2	
Commercial Debt (maximum serviced by cashflow)			5,729,673	572,967	602,023	632,425
Interest expense			783,860	572,967	572,967	570,062
Debt Outstanding			5,729,673	5,729,673	5,700,617	5,638,254
Tax Paid						
Cash flow: Interest Expense			2.00	2.10	2.22	
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>		<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			

## MARINA C

Marina C		RENTAL at 8% of Turnover/Fuel at 2%				
	Escalation Rate - Revenue:	4.00%	4.00%	4.00%	4.00%	
	Escalation Rate - Costs:	3.00%	3.00%	3.00%	3.00%	
SUSTAINABLE RENT - Lifecycle of Marina		Year	2009	2010	2011	2012
<b>Module 1:</b>						
<b>BERTHS AND MARINA BUILDING</b>						
Berth revenue		1,703,478	1,771,617	1,842,482	1,916,181	
Non-berth revenue		-	-	-	-	-
Gross Revenue - Water			1,771,617	1,842,482	1,916,181	
Depreciation & amortisation		760,586	304,232	304,232	304,232	
All other operating costs		936,715	964,816	993,761	1,023,574	
Total expenses			1,269,048	1,297,993	1,327,806	
Net Accounting Profit before Tax (EBIT)			502,569	544,489	588,375	
Cash flow before interest, tax and Concession Rent	14.41%	-7,605,806	806,801	848,721	892,608	
Concession Rent	8%		141,729	147,399	153,294	
Cash flow before interest and tax (EBITDA)	12.16%	-7,605,806	665,072	701,323	739,313	
Equity return before interest & tax - lease term 20 years	10.99%					
Equity return before interest & tax - lease term 15 years	8.35%					
Payback year			-7,605,806	6,940,734	6,239,417	5,500,099
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>		<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			
<b>Module 2:</b>						
<b>HARDSTAND/ REPAIR FACILITY</b>						
Revenue		515,500	536,120	557,564	579,867	
- COGS		-	-	-	-	-
Gross Revenue - Services			536,120	557,564	579,867	
Depreciation & amortisation		174,995	69,998	69,998	69,998	
All other operating costs		206,924	213,132	219,526	226,112	
Total expenses			283,130	289,524	296,110	
Net Accounting Profit before Tax (EBIT)			252,989	268,040	283,757	
Cash flow before interest, tax and Concession Rent	22.73%	-1,749,959	312,988	338,038	353,755	
Concession Rent	8%		42,890	44,605	46,389	
Cash flow before interest and tax (EBITDA)	20.20%	-1,749,959	280,098	293,433	307,366	
Equity return before interest & tax - lease term 20 years	19.59%					
Equity return before interest & tax - lease term 15 years	18.06%					
Payback year			-1,749,959	1,469,861	1,176,478	869,662
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>		<b>22%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			
<b>Module 3:</b>						
<b>Rental Sub tenants</b>						
Revenue		208,694	217,042	225,723	234,752	
- COGS		-	-	-	-	-
Gross Revenue - Module 3			217,042	225,723	234,752	
Depreciation & amortisation		210,997	84,399	84,399	84,399	
All other operating costs		77,987	80,327	82,736	85,219	
Total expenses			164,725	167,135	169,617	
Net Accounting Profit before Tax (EBIT)			52,316	58,588	65,135	
Cash flow before interest, tax and Concession Rent	8.40%	-2,109,972	136,715	142,987	149,534	
Concession Rent	8%		0	17,363	18,058	18,780
Cash flow before interest and tax (EBITDA)	7.18%	-2,109,972	119,352	124,929	130,753	
Equity return before interest & tax - lease term 20 years	5.44%					
Equity return before interest & tax - lease term 15 years	2.00%					
Payback year			-2,109,972	1,990,820	1,865,692	1,734,936
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>		<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			
<b>Module 4:</b>						
<b>Fuel Depot</b>						
Revenue		359,967	370,766	381,889	393,345	
- COGS		308,087	317,329	326,849	336,655	
Gross Revenue - Module 4			53,436	55,039	56,690	
Depreciation & amortisation		705,726	28,229	28,229	28,229	
All other operating costs		20,825	23,450	22,093	22,756	
Total expenses			49,679	50,322	50,985	
Net Accounting Profit before Tax (EBIT)			3,757	4,717	5,705	
Cash flow before interest, tax and Concession Rent	3.77%	-705,726	31,986	32,946	33,934	
Concession Rent	2%		1,069	1,101	1,134	
Cash flow before interest and tax (EBITDA)	3.49%	-705,726	30,918	31,845	32,801	
Equity return before interest & tax - lease term 20 years	1.46%					
Equity return before interest & tax - lease term 15 years	-2.31%					
Payback year			-705,726	674,808	642,963	610,162
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>		<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			
<b>MARINA TOTALS</b>						
Gross Revenue - all divisions			2,895,544	3,007,658	3,124,145	
Cash flow before interest, tax and Concession Rent	14.28%	-12,171,463	1,298,490	1,362,692	1,429,831	
Concession Rental to Authorities	7.12%	7.02%	203,051	211,162	219,598	
Cash flow before interest and tax (EBITDA)	12.33%	-12,171,463	1,095,439	1,151,530	1,210,233	
Equity return before interest & tax - lease term 20 years	11.09%					
Equity return before interest & tax - lease term 15 years	8.52%					
Payback year			-12,171,463	11,076,024	9,924,496	8,714,361
Commercial Debt (maximum serviced by cashflow)			2.0	2.0	2.0	
Interest expense		5,477,195	547,719	575,765	605,117	
Debt Outstanding		752,1342	547,719	547,719	544,915	
Tax Paid		5,477,195	5,477,195	5,449,149	5,388,948	
Cash flow: Interest Expense			2.00	2.10	2.22	
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>		<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			

## MARINA D

*Marina D*

Marina D is a full service marina located in regional Queensland. Marina D's analysis was developed from financial reports supplied by the owners. The profit and loss figures were adjusted to remove the results of business operations conducted on adjacent land to the concession site. These business operations have synergies with the marina business, but are not part of the marina business.

The capital investment is represented by the balance sheet historical cost of the assets for each division, plus an allowance for the cost of restoration to an 'as new' condition. The marina has been progressively upgraded and refurbished over the two decades since the last major development.

**Projected IROR - Lifecycle of Marina**

Marina D		Projected IROR		
		No Rent	6% / 2% Rent Structure	8% / 2% Rent Structure
Module 1	Berth/Water	13.66%	12.35%	11.90%
Module 2	Hardstand	15.99%	14.24%	13.65%
Module 3	Sub-tenants	13.16%	12.17%	11.84%
Module 4	Fuel depot	6.85%	6.19%	6.19%
Total Marina	25 years	13.80%	12.53%	12.10%
Total Marina	50 years	14.50%	13.85%	
Total Marina	20 years	12.74%	11.33%	10.86%
Total Marina	15 years	10.45%	8.84%	8.30%

Annual Rent Rent/Turnover	Concession Rent - 3 Years Ago	Concession Rent - Current	6% / 2% Rent Structure	8% / 2% Rent Structure
		\$208,352 13.37%	\$258,808 13.77%	\$114,278 6.00%

Assumptions for Table:

Costs escalate at CPI = 3.0% p.a.

Real Revenue growth at 1.0% p.a above CPI

Rent Structure is 6% or 8% of water revenue

Results in the Table for the business Modules are 25 year term analyses only

The concession rental has increase at close to the growth rate for Total Revenue over the past three years. The current rental review method is based on alternative use value, is currently at a level more than double the long term sustainable rental.

We note from the above table that over a 50 year term, the IROR does not exceed 15% per annum for Marina D under any rental structure.

MARINA D

**SUSTAINABLE RENT - Lifecycle of Marina**

Inflation	
Real annual change in berth prices	
Real annual change in costs	
Remaining lease term in years	
Remaining useful life of construction after lease expiry	
Debt service cover ratio	
Debt Interest Cost	
Total cost of construction outside leased area (\$k)	
Total cost of buildings and other improvements within leased area (\$k)	
Working Capital & Inventory	
Cost to replace or restore to 'as new' condition	
Capital Investment	
Concession Rent (% of revenue)	8%
Year 26 refurbishment cost	

**Marina D**



	Module 1	Module 2	Module 3	Module 4	TOTAL
	BERTHS AND	HARDSTAND/	Rental Sub	Fuel Depot	
	MARINA BUILDING	REPAIR FACILITY	tenants		
					-
					5,531,663
					319,908
					4,721,385
					10,572,956
					-
					16,100,705

## MARINA D

Marina D		RENTAL at 6% of Turnover/Fuel at 2%				
	Escalation Rate - Revenue:	4.00%	4.00%	4.00%	4.00%	
	Escalation Rate - Costs:	3.00%	3.00%	3.00%	3.00%	
SUSTAINABLE RENT - Lifecycle of Marina		Year	2009	2010	2011	2012
<b>Module 1:</b>						
<b>BERTHS AND MARINA BUILDING</b>						
Berth revenue		602,915	627,032	651,113	678,198	
Non-berth revenue		70,209	73,017	75,938	78,976	
Gross Revenue - Water			554,015	576,175	599,222	
Depreciation & amortisation		299,178	119,671	119,671	119,671	
All other operating costs		239,847	247,042	254,454	262,087	
Total expenses			366,714	374,125	381,759	
Net Accounting Profit before Tax (EBIT)			187,301	202,050	217,464	
Cash flow before interest, tax and Concession Rent	13.66%	-2,991,781	306,972	321,721	337,135	
Concession Rent	6%		33,241	34,571	35,953	
Cash flow before interest and tax (EBITDA)	12.35%	-2,991,781	273,731	287,151	301,181	
Equity return before interest & tax - lease term 20 years	11.13%					
Equity return before interest & tax - lease term 15 years	8.58%					
Payback year			2,991,781	2,718,050	2,430,899	2,125,717
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>		<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			
<b>Module 2:</b>						
<b>HARDSTAND/ REPAIR FACILITY</b>						
Revenue		1,259,729	1,310,118	1,362,523	1,417,024	
Other revenue (COGS)		531,593	552,857	574,971	597,970	
Gross Revenue - Services			757,261	787,552	819,054	
Depreciation & amortisation		288,397	115,359	115,359	115,359	
All other operating costs		401,482	413,526	425,932	438,710	
Total expenses			528,885	541,291	554,069	
Net Accounting Profit before Tax (EBIT)			228,376	246,261	264,985	
Cash flow before interest, tax and Concession Rent	15.99%	-2,883,977	343,735	361,620	380,344	
Concession Rent	6%		45,436	47,253	49,143	
Cash flow before interest and tax (EBITDA)	14.24%	-2,883,977	298,300	314,367	331,201	
Equity return before interest & tax - lease term 20 years	13.16%					
Equity return before interest & tax - lease term 15 years	10.84%					
Payback year			2,883,977	2,585,677	2,271,311	1,940,110
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>		<b>3%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			
<b>Module 3:</b>						
<b>Rental Sub tenants</b>						
Revenue		527,671	548,778	570,729	593,558	
- COGS						
Gross Revenue - Module 3			548,778	570,729	593,558	
Depreciation & amortisation		407,968	163,188	163,188	163,188	
All other operating costs		129,313	133,192	137,188	141,304	
Total expenses			296,380	300,375	304,491	
Net Accounting Profit before Tax (EBIT)			252,398	270,353	289,067	
Cash flow before interest, tax and Concession Rent	13.16%	-4,079,688	415,585	433,541	452,254	
Concession Rent	6%		32,927	34,244	35,613	
Cash flow before interest and tax (EBITDA)	12.17%	-4,079,688	382,659	399,297	416,641	
Equity return before interest & tax - lease term 20 years	10.98%					
Equity return before interest & tax - lease term 15 years	8.50%					
Payback year			4,079,688	3,697,029	3,297,732	2,881,091
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>		<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			
<b>Module 4:</b>						
<b>Fuel Depot</b>						
Revenue		1,440,260	1,483,468	1,527,972	1,573,811	
- COGS		1,310,437	1,349,750	1,390,242	1,431,950	
Gross Revenue - Module 4			133,718	137,730	141,862	
Depreciation & amortisation		617,511	24,700	24,700	24,700	
All other operating costs		91,388	94,129	96,953	99,862	
Total expenses			118,830	121,653	124,562	
Net Accounting Profit before Tax (EBIT)			14,889	16,076	17,300	
Cash flow before interest, tax and Concession Rent	6.85%	-617,511	39,589	40,777	42,000	
Concession Rent	2%		2,674	2,755	2,837	
Cash flow before interest and tax (EBITDA)	6.19%	-617,511	36,915	38,022	39,163	
Equity return before interest & tax - lease term 20 years	4.51%					
Equity return before interest & tax - lease term 15 years	1.27%					
Payback year			617,511	580,996	542,578	503,411
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>		<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			
<b>MARINA TOTALS</b>						
Gross Revenue - all divisions			3,343,522	3,462,428	3,585,645	
Cash flow before interest, tax and Concession Rent	13.80%	-10,572,956	1,105,882	1,157,659	1,211,733	
Concession Rent	3.61%		114,278	118,822	123,547	
Cash flow before interest and tax (EBITDA)	12.53%	-10,572,956	991,604	1,038,837	1,088,186	
Equity return before interest & tax - lease term 20 years	11.33%					
Equity return before interest & tax - lease term 15 years	8.84%					
Payback year			10,572,956	9,581,997	8,542,515	7,454,339
Equity return before interest & tax - lease term 50 years	14.50%	13.35%	2	2	2	
Commercial Debt (maximum serviced by cashflow)			4,958,021	495,802	519,418	544,093
Interest expense			662,4086	495,802	495,802	493,441
Debt Outstanding			4,958,021	4,958,021	4,934,405	4,883,753
Tax Paid						
Cash flow: Interest Expense				2.00	2.10	2.21
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>		<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			

MARINA D

Marina D		RENTAL at 8% of Turnover/Fuel at 2%				
	Escalation Rate - Revenue:	0	4.00%	4.00%	4.00%	4.00%
	Escalation Rate - Costs:		3.00%	3.00%	3.00%	3.00%
SUSTAINABLE RENT - Lifecycle of Marina		Year	2009	2010	2011	2012
<b>Module 1:</b>						
<b>BERTHS AND MARINA BUILDING</b>						
Berth revenue		602,915	627,032	652,113	678,198	
Non-berth revenue		70,209	73,017	75,938	78,976	
Gross Revenue - Water		554,015	576,175	599,222		
Depreciation & amortisation		2991781	119,671	119,671	119,671	
All other operating costs		239,847	247,042	254,454	262,087	
Total expenses			366,714	374,125	381,759	
Net Accounting Profit before Tax (EBIT)			187,301	202,050	217,464	
Cash flow before interest, tax and Concession Rent	13.66%	-2,991,781	306,972	321,721	337,135	
Concession Rent	8%		44,321	46,094	47,938	
Cash flow before interest and tax (EBITDA)	11.90%	-2,991,781	262,651	275,627	289,197	
Equity return before interest & tax - lease term 20 years	10.63%		47.41%	47.84%	48.26%	
Equity return before interest & tax - lease term 15 years	8.01%					
Payback year			-2,991,781	2,728,190	2,451,501	2,164,306
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>		<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			
<b>Module 2:</b>						
<b>HARDSTAND/ REPAIR FACILITY</b>						
Revenue		1,259,729	1,310,118	1,362,523	1,417,024	
- COGS		531,593	552,857	574,971	597,970	
Gross Revenue - Services			757,261	787,552	819,054	
Depreciation & amortisation		2883977	115,359	115,359	115,359	
All other operating costs		401,482	413,576	425,932	438,710	
Total expenses			528,885	541,291	554,069	
Net Accounting Profit before Tax (EBIT)			228,376	246,261	264,985	
Cash flow before interest, tax and Concession Rent	15.99%	-2,883,977	343,735	361,620	380,344	
Concession Rent	8%		60,581	63,004	65,524	
Cash flow before interest and tax (EBITDA)	13.65%	-2,883,977	283,154	298,616	314,820	
Equity return before interest & tax - lease term 20 years	12.51%					
Equity return before interest & tax - lease term 15 years	10.09%					
Payback year			-2,883,977	2,600,823	2,332,207	2,067,387
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>		<b>3%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			
<b>Module 3:</b>						
<b>Rental Sub tenants</b>						
Revenue		527,671	548,778	570,729	593,558	
- COGS						
Gross Revenue - Module 3			548,778	570,729	593,558	
Depreciation & amortisation		4079688	163,188	163,188	163,188	
All other operating costs		129,313	133,192	137,188	141,304	
Total expenses			296,380	300,376	304,491	
Net Accounting Profit before Tax (EBIT)			252,398	270,353	289,067	
Cash flow before interest, tax and Concession Rent	13.16%	-4,079,688	415,585	433,541	452,254	
Concession Rent	8%	0	43,902	45,658	47,485	
Cash flow before interest and tax (EBITDA)	11.84%	-4,079,688	371,683	387,882	404,770	
Equity return before interest & tax - lease term 20 years	10.62%					
Equity return before interest & tax - lease term 15 years	8.07%					
Payback year			-4,079,688	3,708,004	3,320,122	2,915,132
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>		<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			
<b>Module 4:</b>						
<b>Fuel Depot</b>						
Revenue		1,440,260	1,483,468	1,527,972	1,573,811	
- COGS		1,310,437	1,349,750	1,390,242	1,431,950	
Gross Revenue - Module 4			133,718	137,730	141,862	
Depreciation & amortisation		617511	24,700	24,700	24,700	
All other operating costs		91,388	94,129	96,953	99,862	
Total expenses			118,830	121,653	124,562	
Net Accounting Profit before Tax (EBIT)			14,889	16,076	17,300	
Cash flow before interest, tax and Concession Rent	6.85%	-617,511	39,589	40,777	42,000	
Concession Rent	2%		2,674	2,755	2,837	
Cash flow before interest and tax (EBITDA)	6.19%	-617,511	36,915	38,022	39,163	
Equity return before interest & tax - lease term 20 years	4.51%					
Equity return before interest & tax - lease term 15 years	1.27%					
Payback year			-617,511	540,536	547,574	503,411
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>		<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			
<b>MARINA TOTALS</b>						
Gross Revenue - all divisions			3,343,522	3,462,428	3,585,645	
Cash flow before interest, tax and Concession Rent	13.80%	-10,572,956	1,105,882	1,157,659	1,211,733	
Concession Rental to Authorities	4.78%	4.55%	151,479	157,511	163,784	
Cash flow before interest and tax (EBITDA)	12.10%	-10,572,956	954,403	1,000,148	1,047,949	
Equity return before interest & tax - lease term 20 years	10.86%					
Equity return before interest & tax - lease term 15 years	8.30%					
Payback year			-10,572,956	9,818,551	8,818,406	7,570,456
Equity return before interest & tax - lease term 50 years	12.86%		2.0	2.0	2.0	
Commercial Debt (maximum serviced by cashflow)			4,772,016	477,202	500,074	523,975
Interest expense			6390353	477,202	477,202	474,914
Debt Outstanding			4,772,016	4,772,016	4,749,144	4,700,084
Tax Paid						
Cash flow: Interest Expense				2.00	2.10	2.21
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>		<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>			

## MARINA E

*Marina E*

Marina E is a regional Queensland marina operated by an entity which has water revenues only, and no slipway, fuel or tenants. Marina E's data was input by the owners of the business who also provided additional information on the business and operation of the marina.

The marina is relatively recently upgraded, and there are no immediate plans for further development. The allowance for capital upgrades was to allow for the construction cost escalation over the cost to return the Marina to as new status a few years ago. This amount was added to historical cost of acquisition and development to arrive at the total investment required at the start of the 25 year life cycle of the marina.

The revenue and capital investment are all water related, with no significant sub-tenancies.

## Projected IROR - Lifecycle of Marina

Marina E		Projected IROR		
		No Rent	6% / 2% Rent Structure	8% / 2% Rent Structure
Module 1	Berth/Water	13.48%	12.52%	12.19%
Module 2	Hardstand	Not In Use	Not In Use	Not In Use
Module 3	Sub-tenants	Not In Use	Not In Use	Not In Use
Module 4	Fuel depot	Not In Use	Not In Use	Not In Use
Total Marina	25 years	13.48%	12.52%	12.19%
Total Marina	50 years	14.15%	13.29%	
Total Marina	20 years	12.42%	11.37%	11.01%
Total Marina	15 years	10.15%	8.95%	8.54%

Annual Rent Rent/Turnover	Concession Rent - 3 Years Ago	Concession Rent - Current	6% / 2% Rent Structure	8% / 2% Rent Structure
		\$137,597	\$271,368	\$121,926
	6.86%	13.35%	6.00%	8.00%

Assumptions for Table:

Costs escalate at CPI = 3.0% p.a.

Real Revenue growth at 1.0% p.a above CPI

Rent Structure is 6% or 8 % of water revenue

Results in the Table for the business Modules are 25 year term analyses only

Total Revenue has grown 15% over the past two years. However the concession rental has grown by 132% over the same two year period.

We note from the above table that over a 50 year term only, the IROR approaches but does not exceed 15% per annum for Marina E under Pitcher Partners recommended maximum rental structure.

MARINA E

**SUSTAINABLE RENT - Lifecycle of Marina**

- Inflation
- Real annual change in berth prices
- Real annual change in costs
- Remaining lease term in years
- Remaining useful life of construction after lease expiry
- Debt service cover ratio
- Debt Interest Cost



**Marina E**

	Module 1 BERTHS AND MARINA BUILDING	Module 2 HARDSTAND/ REPAIR FACILITY	Module 3 Rental Sub tenants	Module 4 Fuel Depot	TOTAL
Total cost of construction outside leased area (\$k)					13,016,393
Total cost of buildings and other improvements within leased area (\$k)					1,066,549
Working Capital & Inventory					1,288,623
Cost to replace or restore to 'as new' condition					15,371,565
Capital Investment					-
Concession Rent (% of revenue)					22,463,644
Year 26 refurbishment cost					-

## MARINA E

## Marina E

## RENTAL at 6% of Turnover/Fuel at 2%

	Escalation Rate - Revenue:	4.00%	4.00%	4.00%	4.00%	
	Escalation Rate - Costs:	3.00%	3.00%	3.00%	3.00%	
<b>SUSTAINABLE RENT - Lifecycle of Marina</b>	Year	2009	2010	2011	2012	
<i>Module 1:</i>						
<b>BERTHS AND MARINA BUILDING</b>						
Berth revenue		1,953,949	2,032,106	2,113,391	2,197,926	
Non-berth revenue		-	-	-	-	
<b>Gross Revenue - Water</b>			<b>2,032,106</b>	<b>2,113,391</b>	<b>2,197,926</b>	
Depreciation & amortisation		15371565	614,863	614,863	614,863	
All other operating costs		406,648	418,847	431,412	444,355	
Total expenses			<b>1,033,710</b>	<b>1,046,275</b>	<b>1,059,217</b>	
Net Accounting Profit before Tax (EBIT)			<b>998,397</b>	<b>1,067,116</b>	<b>1,138,709</b>	
Cash flow before interest, tax and Concession Rent	13.48%	-15,371,565	1,613,259	1,681,978	1,753,572	
Concession Rent	6%		121,926	126,803	131,876	
Cash flow before interest and tax (EBITDA)	<b>12.52%</b>	<b>-15,371,565</b>	<b>1,491,333</b>	<b>1,555,175</b>	<b>1,621,696</b>	
Equity return before interest & tax - lease term 20 years	<b>11.37%</b>					
Equity return before interest & tax - lease term 15 years	<b>8.95%</b>					
Payback year			-15,371,565 -	13,880,232 -	12,325,057 -	10,703,361
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>	<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>				
<b>MARINA TOTALS</b>						
Gross Revenue - all divisions			2,032,106	2,113,391	2,197,926	
Cash flow before interest, tax and Concession Rent	13.48%	-15,371,565	1,613,259	1,681,978	1,753,572	
Concession Rent	6.00%		121,926	126,803	131,876	
Cash flow before interest and tax (EBITDA)	<b>12.52%</b>	<b>-15,371,565</b>	<b>1,491,333</b>	<b>1,555,175</b>	<b>1,621,696</b>	
Equity return before interest & tax - lease term 20 years	<b>11.37%</b>					
Equity return before interest & tax - lease term 15 years	<b>8.95%</b>					
Payback year			0			
Equity return before interest & tax - lease term 50 years	<b>14.15%</b>	<b>13.29%</b>	2	2	2	
Commercial Debt (maximum serviced by cashflow)		<b>7,456,665</b>	745,667	777,587	810,848	
Interest expense		9587951	745,667	745,667	742,474	
Debt Outstanding		7,456,665	7,456,665	7,424,744	7,356,371	
Tax Paid		-\$2,680,952				
Cash flow: Interest Expense			2.00	2.09	2.18	
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>	<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>				

## MARINA E

## Marina E

## RENTAL at 8% of Turnover/Fuel at 2%

	Escalation Rate - Revenue:	4.00%	4.00%	4.00%	4.00%	
	Escalation Rate - Costs:	3.00%	3.00%	3.00%	3.00%	
<b>SUSTAINABLE RENT - Lifecycle of Marina</b>	Year	2009	2010	2011	2012	
<i>Module 1:</i>						
<b>BERTHS AND MARINA BUILDING</b>						
Berth revenue		1,953,949	2,032,106	2,113,391	2,197,926	
Non-berth revenue		-	-	-	-	
<b>Gross Revenue - Water</b>			<b>2,032,106</b>	<b>2,113,391</b>	<b>2,197,926</b>	
Depreciation & amortisation		15371565	614,863	614,863	614,863	
All other operating costs		406,648	418,847	431,412	444,355	
Total expenses			<b>1,033,710</b>	<b>1,046,275</b>	<b>1,059,217</b>	
Net Accounting Profit before Tax (EBIT)			<b>998,397</b>	<b>1,067,116</b>	<b>1,138,709</b>	
<b>Cash flow before interest, tax and Concession Rent</b>	13.48%	<b>-15,371,565</b>	<b>1,613,259</b>	<b>1,681,978</b>	<b>1,753,572</b>	
Concession Rent	8%		162,569	169,071	175,834	
<b>Cash flow before interest and tax (EBITDA)</b>	12.19%	<b>-15,371,565</b>	<b>1,450,691</b>	<b>1,512,907</b>	<b>1,577,737</b>	
Equity return before interest & tax - lease term 20 years	11.01%					
Equity return before interest & tax - lease term 15 years	8.54%					
Payback year			-15,371,565 -	13,920,874 -	12,407,967 -	10,830,230
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>	<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>				
<b>MARINA TOTALS</b>						
<b>Gross Revenue - all divisions</b>			2,032,106	2,113,391	2,197,926	
<b>Cash flow before interest, tax and Concession Rent</b>	13.48%	<b>-15,371,565</b>	<b>1,613,259</b>	<b>1,681,978</b>	<b>1,753,572</b>	
Concession Rental to Authorities	8.00%	8.00%	162,569	169,071	175,834	
<b>Cash flow before interest and tax (EBITDA)</b>	12.19%	<b>-15,371,565</b>	<b>1,450,691</b>	<b>1,512,907</b>	<b>1,577,737</b>	
Equity return before interest & tax - lease term 20 years	11.01%					
Equity return before interest & tax - lease term 15 years	8.54%		0			
Payback year			-15,371,565 -	13,920,874 -	12,407,967 -	10,830,230
<b>Commercial Debt (maximum serviced by cashflow)</b>			2.0	2.0	2.0	
Interest expense		7,253,454	725,345	756,453	788,869	
Debt Outstanding		9332599	725,345	725,345	722,235	
Tax Paid		7,253,454	7,253,454	7,222,346	7,155,712	
Cash flow: Interest Expense			2.00	2.09	2.18	
<b>HIGHEST RENT WHICH PRODUCES 15% PRE-TAX RETURN ON INVEST</b>	<b>0%</b>	<b>THIS IS THE SUSTAINABLE RENT</b>				

## PRIVATE EQUITY YIELD REQUIREMENTS

### Appendix 2 Private Equity Yield Requirements

Pitcher Partners have used long term equity yield requirements in the Queensland marina studies rather than the extreme high investor demands experienced during the global financial crisis (GFC) which has heavily impacted the availability of capital for all debt and equity investment types.

It is salient to note the impact on the marina industry of an economic downturn. Even though the Queensland economy did not experience anything like the economic shock which impacted major international economies, marina operators and owners did experience difficult trading conditions and adverse borrowing conditions. We emphasise that our discussion below is subject to prevailing economic conditions, as the GFC has reinforced that, in adverse conditions, debt and equity finance may not be available at any rate.

#### Target Internal Rate of Return

Based on market evidence as well as examples of particular marina industry and other infrastructure projects, Pitcher Partners was able to establish that the marina concession holder's required rate of return, sufficient to induce them to proceed with such an investment, was 17%-20% pre tax. In arriving at this target we considered both the returns obtainable from both capital markets and similar infrastructure investments as set out below:

Capital Markets Yield	Pre Tax Rate	Post Tax Rate
<u>Australian Government 10 Year Bonds</u>		
Range from 3.99% (Dec 2008) to 15.05% (Nov 1985)		
Average	8.63%	6.04%
<i>Rolling 25 Year Average - Range from 8.63% (Jan 2009) to 10.90% (Sept 1997 to June 1998)</i>		
<u>NSW Treasury Corporation 10 Year Bonds</u>		
Range from 4.76% (Jan 2009) to 15.53% (Dec 1985)		
Average	9.04%	6.33%
<i>Rolling 25 Year Average - Range from 9.04% (Jan 2009) to 10.87% (June 2002)</i>		

## PRIVATE EQUITY YIELD REQUIREMENTS

Infrastructure Investments	Pre Tax Rate	Post Tax Rate
Rozelle Rack and Stack (Range from 20 to 27% IRR Target)	25%	17.5%
Macquarie Infrastructure Group (Since inception in 1996, as at July 2007)	17.80%	12.46%
Macquarie Airports (As at 4 April 2007)	40.00%	28.00%
Transurban (As at 4 April 2007)	26.00%	18.20%
Goldman Sachs JBWere Australian Infrastructure Wholesale Fund (As at 30 Nov 2007)	14.90%	10.43%

In summary, the risk free rate, based on Rolling 25 year average Australian Government and NSW Treasury Corp Bonds is between 8.63% to 10.9% pre tax.

The projects for which data is publicly available range from 14.9% to 40% pre tax.

Combining both sets of data we concluded that the target IRR for an investment in a marina leasehold would be between 17 – 20% pre tax.

### Ability to Raise Project Finance

As marinas and other similar infrastructure projects are leasehold investments with no termination value, financial institutions will often not advance facilities at all unless these borrowings are supported by collateral security, usually in the form of freehold real estate. As stated in our Report, if there was certainty of tenure, we consider that the maximum level of funding financiers would provide would be limited to 50 – 65% of the capital outlay.

Such investments are relatively risky and hence financiers would be expected to charge a substantial premium over their cost of funds, increasing the rate of interest payable by lessees. The long term interest rate applicable to such borrowings is between 10 – 12 %.

Financiers' cost of funds have increased above published indicator rates during the GFC, resulting in a tightening of available funds, higher lending margins and tighter security conditions. As a result, debt finance has been difficult to find for businesses with the risk profile of marinas, and for development projects. Therefore, despite falls in published indicator rates, long term debt rates for marinas have remained at 10-12%, and have required additional levels of collateral security. As the RBA has raised rates and indicated further interest rate rises will occur as the economy recovers, we consider that 10% per annum is the correct minimum interest rate to adopt in our modelling of long term cash flows and debt repayments, given the long term nature of the debt.

## PRIVATE EQUITY YIELD REQUIREMENTS

### Weighted Average Cost of Capital (“WACC”)

Assuming a debt to equity mix of 50 / 50, and based on a required IRR of between 17 – 20% pre tax, and an interest rate on debt of between 10 – 12% we have calculated the weighted average cost of capital for such an investment to be around 15%. This also means that all participants accept that the target IRR should be between 17 – 20% pre tax. For this reason, we have referred to IRR exceeding 15% p.a. pre-tax as those returns are indicative of an investment which is close to being sustainable if other conditions are favourable.

We note that the marinas have capacity to borrow 50% of the cost of the initial investment at the time of development or a substantial rebuild. This level of debt would be able to be drawn when a rebuild is completed, assumed to be in year 26 of a 50 year lease term. However, banks are likely to require repayment to occur with five year targets, with debt reduced to minimal levels from year 10 onwards. Our detailed modelling for Marina A show that average debt to total assets would average only 22% of total funds invested over the first 25 years. A similar gearing would be expected each time there is a major rebuild of the marina.

### Sustainable Rent

The aim of our report was to provide Marine Queensland with an Independent Expert Opinion as to what the level of sustainable rent for marinas may be over the long term and to provide a model suitable for the calculation of such rent.

Having established that the appropriate WACC to utilise is 15% assuming an optimal debt / equity mix of 50 / 50 industry wide, and hence the appropriate target IRR is 17 – 20% which is used in our model, it is clear that rents at levels above the recommended range of 6% of turnover are not sustainable unless it is possible to achieve real growth in revenues at greater than 2% pa over the length of the lease. In all cases the lease term needs to be at least 50 years.

The key data required to be input in utilising the model we have developed is as follows:

- 1) Cost of investment
- 2) Projected Returns
- 3) Target IRR (as supported by the discussions around WACC).

Items 1 and 2 can be derived from the feasibility studies and supporting documents provided by the concession holder. The only variable to be agreed by the parties is the WACC and we have utilised 15%, which supports our target IRR of 17 – 20%.

**PRIVATE EQUITY YIELD REQUIREMENTS****Current Investment Emerging from GFC**

A number of Tourism and Leisure Investment trusts have invested in marinas in Australia. From our discussions with them, it is clear that they consider that they have 'dabbled' in marina investments with a view to analysing the long-term prospects of investing in marinas which, if additional capital were available, would have prospects of substantial re-development or further development. Some of these professional funds are now looking at Queensland marinas, or have made an initial investment.

The fund managers have made it clear to us that they require certainty as to lease term and rental methodology. It is also clear that the marina managers within those funds must compete for scarce capital with other tourism and leisure industry investments. It is therefore not as simple as finding an investment with prospective returns of 17-20% pre-tax, but whether other industries are offering higher returns in the competition for available capital.

## Australian and International Best Practice

### Appendix 3 International and National Comparisons

In accordance with Queensland Government policy on matters of public administration, it would be better for the authorities, the community and marina investors for Queensland to adopt world best practice policy being used in other Australian and international jurisdictions.

It is clear from our international research that best policy for marinas is for the authorities to base sustainable rents on economic performance under the zoning and other restrictions applicable to the actual concession. International practice, and that being adopted on review by other Australian jurisdictions, is to base rentals on marina revenue.

It is clear from the 5 marinas studied, industry observations, other Australian and international examples that a policy based on a percentage of turnover at a sustainable level is the best way for both the Queensland authorities and the industry to move forward. Adopting this methodology ensures that QT benefits from any uplift that the lessee is able to generate in revenue at their site.

<i>More profit certainty</i>	=	<i>greater investment</i>
<i>Greater investment</i>	=	<i>greater turnover</i>
<i>Greater turnover</i>	=	<i>greater rent for Queensland Authorities</i>

#### International benchmarking

Rental calculations based on turnover have been successfully employed in other countries for long enough to have been proven as sustainable throughout the economic cycle.

**Marinas in Canada operate under a Memorandum of Understanding (MOU) covering 322 marinas and giving 20 plus 10 year leases at a rent which is equivalent to 4% of turnover.**

**The US Army Corp of Engineers, which is responsible for all the water leases/licenses in the United States, and is the largest marina landlord in the world, use a percentage of turnover based on a sliding scale between 2% and 4.6%.**

Pitcher Partners have researched the policies adopted by European, USA and Canadian authorities regarding the methodology to calculate rent on the unimproved seabed and adjacent dry land. For example the Ontario State authority's position is summarized in the following extract from the Memorandum of Understanding with the Ontario Marina Operators association:

*As supported by the report prepared by the Simmons Group and through extensive research and discussion with the OMOA it was determined that a fair rate of return to the Crown would be 1-2% of the gross revenue realized from the rental of dockage only.*

The Government of British Columbia contains the following statement in its Crown Land Use Operational Policy:

*The annual rental for marinas and yacht clubs is 3.5% of gross potential income in the first 15 years of tenure and 4% of gross potential income thereafter.*

The US Army Corps of Engineers, which has enormous landholdings throughout the United States, charges rent using its Revised Graduated Rental System. The rent is based on 'the total of the concessionaire's receipts from business operations conducted on the premises, including receipts of sub-lessees and licensees'. The rent starts at 2.4% increasing to a maximum of 4.6% for marinas with turnover exceeding US\$5m.

### **Australian Experience**

Pitcher Partners experience is that the Queensland approach is typical of the way marina concessions used to be provided at the time we began co-operating with the industry with a view to discovering why marina investment had lagged, and so many marina facilities were run down or underdeveloped..

Our marina study has found that the historic practice of Queensland concession authorities has been to deal with each concession holder on an individual basis, with no clear policy position or consistent lease rental approach other than a loose policy of concession rentals as a percentage of 'market value' of the unimproved site. There has been no apparent consistent policy approach between the various Queensland concession authorities over time. There are internal inconsistencies within the various authorities in their approach to different concession holders, but also in the lease terms for different properties used by the one marina operator.

The result is inconsistent rental charges for competing marinas subject to different policies in Queensland. One marina, who moved from one authority to another, was able to have their concession rentals reduced under the new owners policy by over 50%. Another regional marina we reviewed (but did not include in our case studies and has not changed landlords) has received a 1200% rental increase. Marina B was initially reviewed and assessed for a 200% increase, but when the DERM reviewed its policy and reverted to the valuation based on actual site use and restrictions, there was a nominal change in rental applied.

This has resulted in recent determination of rent levels based on professional valuations which did not require the valuer to be expert in the marina concession industry. It also appears that when valuers were instructed to provide an unimproved

valuation, they were not properly instructed, as required under some lease agreements, to take into account current permitted use, consents and actual improvements (which indicates the experienced marina valuer should be taking into account the actual concession use, public amenity and site restrictions before deducting the amortised cost of improvements to arrive at an unimproved valuation of the concession site).

This piecemeal approach is extremely time consuming and costly for both the authorities and the concession holder. When confronted with a similar practice in NSW, it was Pitcher Partner's recommendation that the BIA NSW work with NSW authorities to establish a rental policy that can be applied to the industry as a whole, without individual business cases needing to be submitted.

We have worked with the BIA NSW and the major provider of marina concessions in that State, NSW Maritime. Both parties have progressed toward a policy which substantially adopts international best practice, with minimum 25-year terms flexible up to 40 years, and with rentals based on marina revenue rather than market valuations for alternate zoning (such as waterfront high-rise residential).

Another significant development is the adoption in their published policy for commercial marinas of the key terms and rental methodology, to be applied consistently to all marinas. We note that the POB was not alone among Australian authorities in not having a published policy which provided certainty and consistency for the commercial marina industry.

### **Conclusion**

Calculating rent as a percentage of revenue has been adopted by comparable international jurisdictions when the government leases unimproved land. The same approach has been accepted by key Australian authorities, by the Australian industry and by the investment community. The percentages indicated by the Marine Queensland industry model are consistent with levels specified by comparable international jurisdictions.