

11th March 2009



Boating Industry Association
of New South Wales Ltd

ACN 000 618 468 • ABN 61 000 618 468

Mr. Bruce Green
Executive Director
Maritime Property Division
Maritime Towers
Level 11/207 Kent Street
Sydney 2000

Re: Recent Meeting with Pitcher Partners to discuss Sustainable Rent Report

Dear Bruce,

We refer to the meeting on the 27th February 2009 where the Boating Industry Association (BIA), Pitcher Partners and members of the marina industry met with NSW Maritime to discuss the Sustainable Rent Report prepared by Pitcher Partners. This meeting enabled Pitcher Partners to interact directly with NSW Maritime and agree on the assumptions that went into the Pitcher Partners modelling.

At the conclusion of that meeting you stated that broad agreement was reached and that NSW Maritime would respond within 2 weeks to the issues raised. The industry representatives feel very strongly that after very many years of uncertainty and lack of clarity in rent negotiations we have reached a pivotal point for the long-term viability of our industry.

This pivotal point in negotiations has coincided with the worst economic downturn since the Great Depression. Revenues derived by businesses operating out of marinas rely on discretionary consumer spending and are therefore even more exposed to economic downturn. Banks recognise this vulnerability and accordingly reduce the amount they are willing to lend to marina operators and/or demand additional security such as the operator's house. This increases the need for equity which has become scarce and more expensive reflecting the higher investment risk.

One of the greatest investment risks is the long and expensive development approval process paid for by equity with a very high chance of an unfavourable outcome. If the approval process is successful the equity provider is then faced with a large construction project often made more expensive by unplanned conditions attached to the approval.

It is in this context that we ask you to confirm in writing NSW Maritime's understanding of the following fundamental issues raised at the meeting.

- The methodology used by Pitcher Partners in their report is appropriate and consistent with the approach adopted by NSW Maritime.
- The pre tax ungeared WACC of 15% recommended by Pitcher Partners was an appropriate benchmark when that report was prepared in August last year.

divisions



members of



MARINE BROKERS
ASSOCIATION
Boating Industry Association of NSW Approved

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- Since the tabling of that report the WACC has increased to between 17-20% due to the reduced amount and increased cost of bank finance as well as a significantly increased risk premium required by equity providers
- Applying this WACC to the construction costs and cash flows of a typical marina will result in a sustainable rent equivalent to 6-8% of passive turnover (berths and rentals) and 2% of active turnover (directly performed services such as mechanical and shipwright/slipway).

During the meeting there was a robust exchange of views on the following areas where we take the opportunity to restate the industry's position.

- **Charging both a licence fee and a lease fee on moorings** Our members are outraged and the BIA will fight to prevent this using all legal, financial, government, media and political channels at our disposal.
- **Ability of marinas to pass increased rental costs to their customers** Our members compete against each other and their customers can also take their boats to private moorings. Our members therefore charge market price and any suggestion that they can simply pass rental increases through to their customers is simply not realistic.
- **Income generated by activities outside the leased area** Whilst this was not discussed in depth at the meeting, the BIA takes the opportunity to restate its strongly held view that NSW Maritime does not have the right to charge rent based on revenues earned on activities conducted outside its leased area. The BIA recommends to members to pay a nominal occupancy-based rent on any land owned by NSW Maritime for which exclusive use is required to access the water. Charging a fee to access the water is equivalent to charging a service station a fee to access the road.

It was agreed at the meeting that we would have further discussions on an appropriate asset value in the context of negotiating an extension of lease, improved infrastructure and/ or a larger leased area.

To help finalise an agreed position we make the following recommendation with respect to lease terms.

In order to amortise the high capital investment of marinas and generate the sufficient return it is necessary to have longer lease terms. Based on discussions with marina lessees, financial institutions and Pitcher Partners the following lease term schedule is recommended for adoption as part of any rent and lease policy.

Capital Investment (Development Cost)	Lease Term
\$1,000,000 - \$2,500,000	25 years
\$2,500,001 - \$4,000,000	30 years
\$4,000,001 - \$5,500,000	35 years
\$5,500,001 - \$7,000,000	40 years
\$7,000,001 - \$8,500,000	45 years
Over \$8,500,000	50 years

We thank you once again for the opportunity to consult and look forward to your written confirmation of the fundamental issues and agreement on the contentious issues. We would then propose having a follow-up meeting as soon as possible to finalise a policy which will provide clarity and certainty whilst providing sufficient incentive for our members to invest in improved infrastructure for the boating public.

Yours sincerely



MARK HEWITT

President, Marina Association of NSW

Director, Boating Industry Association NSW.