July/August 2012
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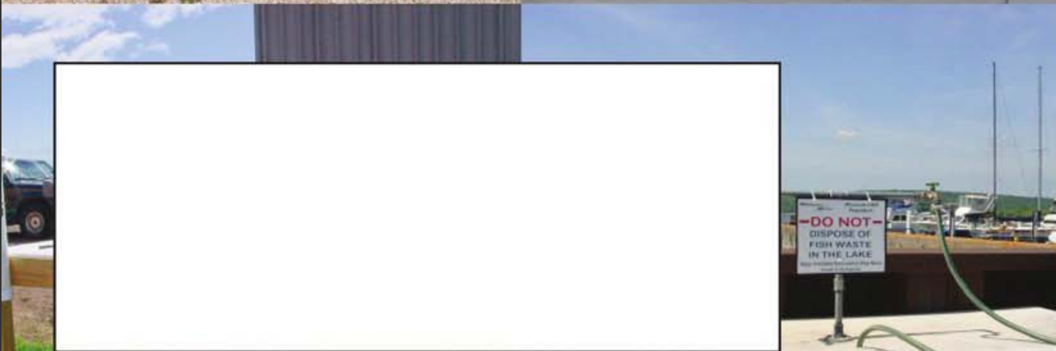

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Where's the Money?
How to get project financing

by **Robert Wilkes**

For those owners that can bankroll their own development projects, congratulations. They're at the top of the financial food chain. If they have enough cash flow and collateral to borrow money from banks at current low interest rates, they're what bankers call "bankable," and they're in the pink. They can borrow at or near today's historic low interest rates.

"There is plenty of money around," said Sid Spiro, founder and president of Regent Bank in Davie, Fla. "But bankers are returning to traditional lending criteria. Basically, you need cash flow and character."

There are three tiers of financing that marina developers access to fund a project: commercial paper, traditional banking and alternative lending or "bridge" loans. And there's a new wrinkle: financing offered by the marina construction companies.

The top tier

Large, well-capitalized corporations issue "commercial paper" that is traded in bond markets as liquid assets. Interest rates are low, commensurate with the company's rating from Standard & Poor's or Moody's.

Take, for example, D R Horton (symbol DHI), a publically traded construction company. It carved out a new basin, adjacent to the existing harbor in Oxnard, Calif., with islands and canals. The project, called Seabridge, includes waterfront townhomes, a 250-slip public marina and another 250 slips for townhome owners spread throughout the development. D R Horton issues commercial paper with five-year maturities at around five percent.

This is a great option, but since most marina developers are not large, publically traded corporations, for most readers, the next two tiers of project financing will be more appropriate.

Traditional banking

Before the geniuses on Wall Street invented credit default swaps and other murky and impersonal "derivative" financial instruments, a business knew its banker, and he knew the business. The loan was an "asset" on the bank's books.

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What facilities can expect with a bridge loan:

- Because it is impractical to move them once installed, bridge lenders consider the liquidation value of the docks as limited. Therefore, the lender will want to collateralize virtually everything else on the property, including land, existing buildings and equipment.
- If the marina has considerable free and clear assets, the lender may be at risk if the marina is unable to meet future obligations.
- Fass explained that bridge loans could be put together in a number of ways, including straightforward debt obligations. However, in some cases the bridge lender, to make the deal make sense from his side of the table, needs additional compensation to take on higher leverage and risk.
- The lender will ask for "preferred equity/preferred return," in other words, an ownership stake. Twenty-five percent is not unusual.
- The marina will be taking on a partner, forever. The marina gets built and managed, and the lender is entitled to a percent of the profits in perpetuity. This is not as dire as it sounds. Lots of businesses sell ownership stakes to raise operating capital; it's done all the time.
- Keep in mind, the lender may require protections for his ownership and may stipulate that no important decisions, including selling the business, can be taken without their approval.
- Finally, interest rates and costs are likely to be higher.

The banker had an interest in the business and sought to build a long-term relationship. As banks return to the fundamentals, these personal banking relationships are coming back.

Spiro knows the marina business well. In the March 2012 issue (Q&A pg. 31), Spiro told *MDA* that when prices were on an upward spiral, loans were approved with reduced down payment or "equity" requirements. Everyone assumed the underlying collateral would rise in value. "That is not likely to happen again soon," Spiro said. "We're back to the five C's of credit: character, capacity, capital, collateral and conditions."

While banks and regions differ, a borrower with good collateral, cash flow and credit can borrow at about five percent to eight percent interest (mid-year, 2012) with reasonable bank fees. The loan and the relationship are long-term: the banker wants the marina to succeed because he lives in the same community and wants the marina around in the future.

As many owners have learned, qualifying for the loan is not easy. The equity contribution is often 20 to 40 percent. If a marina can meet all the criteria, traditional banking in its own community is probably the best option.

Spiro highly recommends the 504 Loan from the Small Business Association (SBA). "The developer gets 50 percent from a bank, up to a maximum of $7.5 million, 40 percent from SBA, up to $5 million, and provides the last 10 percent himself," he said.

Spiro reports that the interest on the SBA portion is a fixed 4.65 percent for 20 years with 20-year amortization, and the bank portion at current market prices is 5 to 5.5 percent with 20-year amortization. The bank portion "re-prices" (the interest rate is reset) every five years.

"The combination SBA and bank loan results in an interest rate of around five percent," Spiro said. "And is by far the best arrangement for marina owners."

One developer, Tony Frost, who has applied for the SBA loan, is skeptical about the reality of the program. "I think it's a mirage," Frost said.

He has permits in hand for a new marina in Beaufort, N.C. "It appears that the federal government is not interested in lending, just paper pushing. It drags out the approval process by continually asking for more information. Even if you get approved, it won't tell you when or if you'll get any money." Frost is looking elsewhere for funding.

Alternative lending

There are a number of reasons why an owner may not qualify at a bank. He may lack the assets needed to meet the equity requirement and need to be highly leveraged, or may have a property with little current cash flow. His location may be hard hit by the recession and currently underperforming. Or, he may intend to build a new marina from scratch—an "If I build it, they will come" proposition.

As a facility in one of these situations, it can seek funds from alternative lenders. These loans are typically "bridge loans" with three- to five-year durations. They are designed to get a project built and generating income, after which the owner must refinance.

Alternative lenders exist, they have money, and they are very smart people. They will put a project on the map, but they want to be well compensated for taking on greater risk. When the choice is a bridge loan or no project at all, alternative lending may be the best option.

Steven Fass of Bixby Bridge Capital in Northbrook, Ill., provides alternative financing for a wide range of projects, including marinas. In Fass' view, residential projects have the most predictable cash flows because housing demand tends to be inelastic. Commercial properties, such as hotels, offices and shopping centers are next best. Marinas are less predictable "entertainment" properties, similar to ski resorts or golf courses, because the underlying activity is discretionary.

"That's not to say marinas aren't very attractive businesses with great potential," Fass said. "We own three, and we consider them good long-term investments. We finance marina projects. But where there

is greater risk, there are greater rewards for the risk taker."

Marina construction-company financing

Having a builder as a banker is new in marina financing, but not in boating. It has been offered by yacht builders to finance yacht sales.

However, the construction company is merely moving money from one pocket to another. That's not automatically a problem, but it can be. Since the owner is now married to one builder, he loses negotiating power. Chances are costs will be higher. It's human nature.

The owner gives up the healthy "arms-length" relationship with the builder. That can be awkward when the owner wants to raise concerns about scheduling, quality or workmanship.

Most lenders don't want to run a marina, so if the owner hits a flat spot, they're inclined to work with him. But a marina construction company knows the marina business. Would it be quicker to take over a property? No one knows, but the possibility is built into the arrangement.

Requirements may be as stringent as a bank's. For example, one example of a "term sheet" required a 1.25 debt service coverage ratio (DSCR), the ratio of monthly EBITDAR (earnings before interest, taxes, depreciation, amortization and rent) and the monthly debt service. If a marina's cash flow is that good, use a bank. Further, the builder insisted that its loan be first priority; that might cut the marina owner off from other funding. Lastly, the term sheet listed equity fees and pricing as "case by case." Let the buyer beware.

Frost looked into this type of financing for the Beaufort Marina development. The experience was not encouraging. "They asked us for $35,000 up front, with no guarantee of getting a loan," Frost said. "I sensed there was a third party involved. We will not do business with them."

Requirements for marina borrowing

Lending will probably not be finalized until all permits, regulatory requirements and other approvals are in hand. This process is arduous and often takes years of persistent effort, so developers should plan for this hurdle as they approach the time to raise capital.

For many good reasons, bank lending is the preferred option. It is best to work with someone in the community who wants the marina to succeed. But if the project needs to be leveraged, a bridge loan can get the project launched. Lastly, without a degree in finance, an owner who doesn't know the ropes is better off, the less complicated the deal. ⚓

Robert Wilkes writes about the marina industry from Bellevue, Wash.

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