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How to obtain financing for a marina's major capital projects

By Andrew Cantor

The need for renovating and expanding existing marinas in the United States has never been greater; especially in light of our industry's Grow Boating initiative. Demand for boat storage in both wet slips and dry stack is strong in most areas of the country. Unfortunately for boaters, the development of new marinas is being constrained by high waterfront land prices and an overly cumbersome permitting process. On the other hand, for marina owners with vision, this could be an opportune time to renovate or expand their marinas. Some of the benefits of undertaking a major capital project include:

• Increasing storage revenue by charging higher storage fees following a renovation;

• Improving the profitability by taking advantage of the better operating leverage associated with a larger facility;

• Gaining a competitive edge over other marinas in the marketplace;

• Attracting more upscale customers who are likely to spend more; and

• Opening the marina to newer boats, which are larger than those for which the docks were originally constructed.

Suppose an owner decided to expand his/her marina by constructing a dry stack facility or new slips and would like financing for the project. What can marina owners do to increase their chances of success with a lender? Although all lenders have different underwriting criteria, there are a couple steps marina owners can take to maximize their chances for success. The first of these is to understand the lender's mindset or thought process.

Lender's mindset

Given that a lender has no upside, its primary focus is on reducing the risk of loss. Despite what some may think, underwriting a loan is not an exact science and a weakness in one area can often be offset by strength in another. Some of the more important criteria upon which lenders focus include cash flow, debt service coverage, loan-to-value, asset quality, market conditions, management experience, and additional transaction support.

In most cases, the lender is looking at the marina's cash flow as the primary source of repayment. In the case of an upgrade or expansion loan, the lender will look at both the historical cash flow for the last couple of years, as well as the projected cash flow assuming the completion of the proposed improvements.

Lenders use cash flow to calculate the debt service coverage ratio, which is the ratio of annual cash flow to principal and interest payments. Most lenders like at least a 1.2:1 to 1.3:1 debt service coverage ratio in determining the size of the initial advance as well as how much they will fund for capital improvements.

Loan-to-value represents the ratio of the loan amount to the marina's appraised value. Lenders will look at this

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ratio in sizing both the initial advance and the amount to be funded for capital improvements. Therefore, they will ask the appraiser for two values—one for the marina "as is" and another "as if" the improvements were completed. Lenders generally target between 60% and 75% loan-to-value depending on the cash flow history, its predictability, and the complexity of the proposed improvements. A complete rebuild and repositioning of the marina in which cash flow is less certain is likely to be sized so that the lender funds between 60% and 65% loan-to-value on an "as if" completed basis. By contrast, an expansion of a marina that has a predictable cash flow already in place is likely to achieve 70% to 75% on an "as if" completed basis.

Asset quality encompasses many variables, such as the age of the docks and buildings, the type of construction, how well the facility has been maintained, the presence of any additional amenities, and the service level. Lenders want to provide financing to marinas that have been well-maintained with no significant problems that could impair future cash flow. The exception to this is financing the renovation of an existing facility, in which case the lender's focus is on whether the proposed capital improvements address the deferred maintenance and bring the marina back to a quality level that will result in improved cash flow.

Market conditions refer to the level of current competition, the potential for future competition, and trends in occupancy rates and rental rates. A strong market is one in which there are increasing demands for slips or rack storage, 90% plus occupancy rates, regular increases in rental rates, high barriers to entry for new marinas, and limited expansion potential at existing facilities. Fort Lauderdale is a good example of a very strong market. By contrast, a weak market is highly competitive with marinas competing heavily for customers, low occupancy rates, flat rental rates, and ready opportunities for new marinas or the expansion of existing marinas. Lenders prefer to lend into strong markets and will evaluate the reasonableness of the cash flow projection in light of the market environment.

Management experience reflects how long the owner has been in the marina industry and his or her track record. A lender is more likely to fund a loan to someone who has successfully operated a marina for a while as opposed to a newcomer. This is particularly true if projected cash flow is to be relied on as a source of repayment rather than stable cash flow. This does not mean that one is out of luck if they don't have marina industry experience. Lenders will often consider experience and success in similar businesses in lieu of direct industry experience.

Lenders will look for additional transaction support when they are relying on projected cash flow, as is the case in a renovation or expansion. They want to feel confident that they will continue to be paid should the projections not materialize as anticipated. The primary form of additional transaction support is a personal guarantee from a creditworthy sponsor. A lender may require a personal guarantee until a target debt service coverage ratio is achieved, at which point it may be reduced or eliminated. At minimum, when construction is involved, a lender will ask that the sponsor guarantee completion of the project.

Preparing a request

By understanding the lender's mindset, preparing a loan request becomes much easier. The goal is to put together a complete, organized package that makes it easy for the lender to evaluate the project relative to the previously identified criteria.

The first section of the package should outline how much money is being sought, for what purpose(s), and when it will be required. If the marina intends to use cash equity along with the loan proceeds to expand the facility, the loan package should indicate so and how much. Lenders often like to see a "Sources & Uses of Funds" statement in this section. The sources are loan proceeds and any cash equity. The uses include acquisition costs if this is a purchase, refinancing existing debt, and construction costs for capital projects.

The second section is a property description and a discussion of the planned improvements. The property description conveys the asset quality to the lender and identifies the improvements one plans to make. In this section, marinas should include supporting items such as a location map, site plan, dock layout, photos, and any marketing material.

The next section should include information on historical cash flow. Although each lender is different, they all like to see multiple years of operating statements plus year-to-date statements for the current year versus the prior year. This way lenders are able to analyze trends, as well as variations, from year-to-year. As a help to the lender, identify on a separate schedule any one-time items that are running through the statements for each year. Also, if the marina has added docks or other revenue-producing assets over the past couple of years, it is a good idea to let the lender know when they were completed. The marina might also include occupancy rates and rental rates to go along with the historical financial statements.

Following the historical cash flow section is a good spot for outlining the proposed capital improvements and their impact on cash flow. Besides outlining what one plans to build, marina owners should include a construction budget and provide a projected cash flow with assumptions highlighted. This latter item should reflect any disruption to current operations while construction is in process, lease-up once the improvements are completed, and what the cash flow will look like when the improvements are completed and the operation has stabilized. If the marina is building new docks or a dry stack, it should include any information on pre-leasing or waiting lists.

The final section should contain personal information and is especially important if the marina owner and lender do not know each other well. The lender is interested in knowing how long the applicant has owned the marina. If purchasing the marina, then highlight other marina industry experience. If the applicant has no direct marina industry experience, then the lender will look for other relevant experience to feel comfortable. In addition, the applicant should provide a signed statement of net worth. This is a schedule of personal assets and liabilities. A lender will want to see this to understand how strong the applicant's personal guarantee is should one be required as additional transaction support.

F&I Quick Guide

When seeking a business loan for capital improvements, be prepared to provide the potential lender the following information:

1. **Specify how much money is being sought.**
2. **Describe the property and the planned improvements.**
3. **Provide information on historical cash flow.**
4. **Outline the proposed capital improvements and their impact on cash flow.**
5. **Include a schedule of personal assets.**

Final thoughts

It is important to keep in mind that all the preparation in the world will not amount to much if one does not select the right lender. Applying for and receiving a loan is a two-way street. Just as the lender is trying to decide whether or not to make a loan, the marina owner must decide whether or not this is the right lender. A marina owner's best bet is to work with a lender that has a track record for financing marinas, understands the business, and offers flexible solutions.

In closing, remember this quote from Joe Gibbs, who has enjoyed great success as both the coach of the Washington Redskins and in NASCAR, "A winning effort begins with preparation." Although obtaining a loan for a marina's next major capital project may not be as exciting as winning the Super Bowl or a NASCAR Championship, all three events require a level of preparation to maximize success.

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