

Is that repo boat really a bargain?

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Posted on February 04, 2010

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You can get a good deal in today's glutted market, but you also can get burned if you're not careful.



Repossessed boats can offer what seem to be amazing deals, especially with owners defaulting on loans in record numbers. Banks contract with repo firms to recover the boats and then sell them off, often at auction, to stem their losses as quickly as possible.

The excitement of the chase, a handyman's skills, a gambler's instinct and weakness for a deal, and old-fashioned opportunity all motivate people to buy these boats. But keep in mind, there is a potential downside to factor into the equation, including a lack of history and no warranty when bought at auction. Add in the fact that the owner who couldn't keep up with his payments probably neglected maintenance, and the boat's potential value declines further.

"Neglected maintenance is a problem," says Jonathan Klopman, an expert forensic surveyor based in Marblehead, Mass. "There's also an element of buyer fantasy when it comes to repo boats, but the chances of getting burned are higher than some people think."

However, some people do very well on the repo market for reasons ranging from skill at sizing up a boat to sheer luck. Others do poorly and regret they ever considered the idea. Let's see what to look for to help make sure you'll be in the first group.

Caveat emptor

Repo boats sell "as is," with no warranty or guarantee. In addition to unloading boats in a hurry, not having to back them up after the purchase is another reason they are sold at discounted prices. And though a sea trial is usually part of the boat-buying process, depending on the repo company, you may have to give this up, too.



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Brad Ferguson, president of Northeast Marine Liquidation (www.northeastboatsales.com) in Pawcatuck, Conn., stresses the importance of having repo boats properly surveyed.

"Not being able to do a sea trial is a huge issue," says Klopman. "If you start the engine when the boat's up on blocks, all you know is that that starter works. It's unrealistic for the average buyer to expect the same 'return it to Home Depot without the receipt' mentality if they have buyer's remorse."

The only time you'll be able to get any satisfaction is if the original boatbuilder's warranty is still in effect. Damage won't be covered, but defects might be, depending on the problem and when the warranty clock started ticking. You may also find that the engines, generator or electronics are under warranty, in which case you should register with the OEM as the new owner. Absent this, your risk is greater, but so are the potential rewards if there are no surprises.

A late-model boat that was well taken care of, kept under wraps and not abused in any way can be a great find, but expect to pay more for it. The banks that own these boats have three essential objectives: 1) sell the boat for as much as possible, 2) sell it quickly, and 3) see first objective. Even if a boat has issues, it may still be a good deal; just make sure you get a deep enough discount to cover major repairs. And while it comes with no guarantees, make sure it's all yours, with no liens against it. This should not be an issue with reputable auctioneers, since a clear title is typically guaranteed in the sales agreement.

If a boat was stolen and stripped, make sure you understand how much it will cost to restore it to original condition. If the electronics and gauges were cut out with a Sawzall, you're likely looking at an expensive repair job - not only to replace the fiberglass panels, but also to match the repairs cosmetically to the surrounding surface. This is not an easy fix, though it is a handy skill to learn if you're willing to put enough time into it. If the windlass, engines, generator and other major components were stolen, with a lot of damage in the process, replacing everything with new components could be more expensive than buying a similar higher-priced, undamaged model from a dealer.

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Dealers often buy repo boats at auction, spruce them up, and sell them to consumers. However, they may not know any more about the boat's history than you do, and the price they're asking most likely is substantially more than they paid for it, so there's less room for the price to justify the added risk. That leaves the dealer's warranty to close the gap, but if it's only a 30-day warranty, it won't be worth much if the boat starts falling apart halfway through the season. For my part, I would want a 12-month stem-to-stern warranty before buying such a boat.

Klopman also points out that high-performance boats have a high potential for abuse, given the way they are used. And it takes a very high level of skill to work on them, so know what you're getting into. A more sensible plan if a go-fast appeals to you is to just get a prescription for Viagra and buy a Mainship.



Repossessed boats offer the potential for getting a lot of boat at a value price, but the buyer must be aware of the risks.

Where a previous owner kept the boat also will be a factor in its condition. "It makes a big difference if you're looking at a Florida boat that's been baking in the sun, floating in warm salt water, and used for 200 hours a year for the last 10 years, or if it's been moored in fresh water on the Connecticut River, stored under cover in the winter and used for 50 hours a year," says Ron Milardo, owner of Cooper Capital Specialty Salvage (www.cooperss.com), a salvage management company based in Old Saybrook, Conn. "If you can find the Connecticut boat and it's been maintained by the selling dealer since new, paying more money for this boat is likely far and away your best deal."

Milardo adds, "Do your homework, make your best bid and be ready to deal with the consequences - for better or worse."

If all a boat needs is cosmetic work - this is what the repo dealers look for - you may have found yourself a diamond in the rough. A little scrubbing, compounding, waxing, some new upholstery and canvas, and voila. If you're looking at a larger cruiser, you might focus initially on making sure the boat is reliable, with fully functional systems, then sequentially over the next few seasons refinish the saloon, upgrade the galley, Awlgrip the hull, add new electronics and so on. As long as it's seaworthy and reliable, this may be a smart way to go, since you get to enjoy your new yacht without being boat-poor.

Project boats

Distressed boats - those that were holed running aground, that partially (or completely) sunk or partially burned - will take a very high level of skill and lots of time and money to bring back to life. These boats can take more work to restore than a kit boat would take to finish off, so be forewarned.



Would-be buyers should do their homework and take the time to personally inspect the boat.

My advice is to start small if you want to undertake a rebuild. It's virtually a certainty that it will take longer and cost more than you think it will. If you've worked in home or commercial construction and are handy with tools, you'd still be amazed at how much longer it takes to refit a boat than, say, rehabbing a recreation room that's four times the size. Decks can be curved, pitched and cambered; hull sides are never straight, at least not for any distance; and a good deal of machinery, plumbing and wiring is crammed into incredibly small spaces. And it all has to be accessible.

On the other hand, very few projects are more rewarding - for me, anyway - than buying an old boat that's still beautiful below the surface, structurally sound but cosmetically shot for a song and bringing it back to life.

Forewarned is forearmed

The best approach is to first inspect the boat yourself to see if it really has potential, then hire a competent, experienced surveyor who can find the rotten transom, debonded coring and ruined engine. If you haven't used a surveyor before, a good first step is to contact the National Association of Marine Surveyors (www.namsglobal.org) or the Society of Accredited Marine Surveyors (www.marinesurvey.org). There's a wide range of ethics and competence among surveyors, as well as the time and trouble they'll take to dig around and look for evidence of abuse, neglect and damage.

Brokers I've spoken with say you should ask around to make sure a surveyor is competent and has no conflicts of interest, such as a close relationship with the seller or seller's agent.

The marine surveyor can help you determine whether the boat is a good deal and you can use any defects he finds as a

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negotiating tool. Major problems with the boat's structure or machinery may prove too much for you to take on, in which case the surveyor has done you a favor by putting a halt to a project that's over your head technically or financially.



Be sure buying new engines won't put you over budget if the boat's propulsion is questionable.

If the boat is far from your home and you know the model well, it might make more sense to have a surveyor inspect it before you do, since travel expenses can quickly add up to more than the price of a survey. If a number of boats at a nearby repo center interest you or there are several locations to check out, line up a surveyor and call him in when you find a good candidate. I recommend meeting the surveyor at the boat when possible. You'll learn something about boats in general and a lot about your surveyor.

If you can't sea-trial the boat, have a percentage of the purchase price put into escrow to go toward the cost of repairs to the propulsion, generator, air conditioning and other systems. The money is released to the seller upon successful completion of a post-purchase sea trial. However, don't count on the escrow covering much in the way of actual repairs, says Klopman.

"Say 5 percent of the purchase price is set aside in escrow," he says. "A new engine or generator, or even relatively minor repairs like a new exhaust system, will quickly suck all of that up. And don't expect yards to be working any cheaper than they did a couple of years ago, when the market was strong. They're still charging \$100-plus an hour for labor. Same with the parts needed to fix your boat - they're just as expensive as they were a couple of years ago, or more so."

Some yacht brokers may resist an escrow transaction, since this amounts to holding a percentage of their commission, but it's in your interest to make the sale contingent on the equipment working properly. The surveyor and the sea-trial escrow or contingency plan will reduce your risk.

Klopman says he has seen a trend in the last 10 years with a few bad-apple brokers and sellers using dishonest surveyors who will run the engines for 15 seconds in January in New England and call that a successful propulsion check, just so that all of the buyer's money is released to the seller.

Dollars and sense

Boat auctions can be live or by sealed bid, in person or over the phone. One of the biggest auction companies, National Liquidators (www.yachtauctions.com), uses a sealed-bid system to sell its inventory. The firm - headquartered in Fort Lauderdale, Fla., and with Midwest and West Coast locations - sells bank repossessions, foreclosures, brokerage boats that need to be moved and boats seized by the government for non-payment of taxes, drug running or other offenses. It even offers financing.

National Liquidators recommends personal inspections and takes the additional step of requiring that you talk to one of its 10 brokers to go over the boat before submitting a bid so you know what you're getting into and head off any surprises. It also encourages you to bring in your own surveyor.

National Liquidators also will facilitate a sea trial, charging a \$500 fee that includes the services of one of its captains. If the boat doesn't pass, you get your deposit back, though not the sea trial fee. The company says its bigger boats are often in the water and ready for demo, though the smaller ones usually are not. It says most of its boats are less than three years old and usually sell for close to book value, so you pay for the extra assurance its sales process affords.

"It's important to do business with a reputable auctioneer," says Milardo, the veteran salvage management company owner.

When it's time to make your bid, don't be afraid to start low, Milardo says. "If it's not accepted, the bank may come back with a counteroffer," he says. "Its sole objective is to recoup its note and the repo company's expenses."

Milardo continues: "However, there's often a long delay between an offer being made and the seller, usually the bank, responding to it. Banks don't always have their act together when it comes to boat liquidation, so it can take awhile for them to figure out whether an offer is acceptable or whether they should they wait for a better one."

Of course, someone might outbid you, but that's the name of the game. Chances are that if you are an earnest buyer and your offer is reasonable on today's market, eventually you'll find a boat at the right price.

Klopman points out that boats are selling for around 20 percent less than they were a couple years ago, so that's your real pricing baseline. If you see a boat you figure is 40 percent off its normal value, then you're really getting a 20 percent discount from the depressed market price. The bottom line is you're assuming a lot of risk with a repo boat, so for the deal to make sense the purchase price should reflect your added exposure. In round numbers, this may come out to around 40 percent off the

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boat's retail value.

Milardo says there are so many popular production boats from 21 to 34 feet in the normal retail pipeline, let alone on the repo market, that their value is considerably depressed, and that's not going to change anytime soon. "Buying in this class at auction should deliver a boat for dimes on the dollar, and that's a big problem for high-volume boatbuilders, whose biggest competition is their own new and used late models," he says.

Keep in mind that the various boat blue book values may not be worth much in this "Great Recession." The same goes for the prices you see on some of the broker Web sites; I'm told the actual selling price may be artificially inflated to make it look to future clients like the broker got more for a past sale than he actually did.

Klopman recommends working with a good broker or dealer. "Tell him what you're looking for and let him find you a suitable boat - the best combination of price and condition," he says. "There are plenty of great deals to be found working through dealers and brokers, and the original selling dealer, especially, should know the boat's history. Paying more up front could be a far better deal with a well-maintained boat that's been regularly updated and cared for by the selling dealer than the same boat that's been neglected for five or 10 years and selling for 40 or 50 percent off. That's because your risk is essentially zero - you know what you're getting, and you have a boat you can use right away, which is the whole point."

Sounds like good advice.

The repo calculus changes if you buy a boat at a deep discount, say 40 to 50 percent off and you can do the fix-up work yourself. Your time is worth something, so don't leave that out of the equation. One approach is to find a 10- or 20-year-old Viking, Tiara, Hatteras or similar well-built boat and have the essentials (propulsion, electrical, electronics, etc.) taken care of - for anywhere from \$100,000 for a smaller Tiara to \$250,000 for a larger Viking or Hatteras. The end result could be a reliable, comfortable three-stateroom, two-head boat you and the family can enjoy for many years to come.

Conclusion

Given the state of the economy and the marine market, there may never be a better time to buy a boat, whether through a broker, dealer or at auction. Go slow and wait for the right boat at the right price, and find a top-notch broker or dealer - and surveyor - to help. Keep your time, abilities and tolerance for risk in mind when making a decision. Prepare for the worst and hope for the best. Saddle up and enjoy the hunt.

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This article originally appeared in the February 2010 issue.