

*The Usual Suspects*

# **Charter Boat Ownership 1 Year Anniversary Report**

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## 1 Year Anniversary Report

### June 15, 1999

June 15, 1999 was the day I lost all my marbles. On that day, I marched into my bank and signed a form that authorized them to wire a six-figure sum of money to the bank account of someone in the UK I had never met. This payment was for a boat that I had never seen located somewhere in the Caribbean that I had been to only once. Despite the fact I had conducted one year of research into charter boat ownership, I was a bit nervous.

Most people I talked to thought I was nuts. I had heard all the standard horror stories about charter boat ownership. Charter guests were going to trash the boat at their first opportunity. The salt water was going to eat through the hull and rigging in 24 hours. Revenues would be nonexistent. Bills would be measured by the pound. Repairs would be omnipresent. The charter company was going to rob me blind. I heard it all.

### One Year Later

Well, one year has elapsed since that fateful day. I have safely lived through one complete business cycle as a charter boat owner. The mast is still upright. The seawater still has 999 years to go before it completely dissolves the hull. Charter guests have failed to scuttle her. Money has changed hands.

### General Condition of the Boat

One of my main concerns up front was that charter use would result in measurable wear and tear on the boat. I had read some rather critical remarks on the Internet on the topic, and was concerned that they might be accurate. Acquisition would be a very bad financial move if revenue was more than offset by a huge drop in value due to wear and tear.

My concerns were categorized in three specific areas:

- ❑ **Damages and loss caused by Charter Guest** – This includes breakage or loss due to specific actions of the guest, accidental or intentional.

To date, I have yet to see a charge on my monthly statement for a single item that may have been lost or broken by a charter guest. The last time I used the boat in April, all inventory items were present and accounted for, and the boat was in better shape than the day it bought it. So, if any charter guests were smashing things and throwing them over the side, it's not showing up anywhere I can see. If I didn't see it, then it didn't happen.

Charter guests leave a \$1,000 cash deposit in the hands of the Charter Company before taking the boat. A detailed inventory is checked by the guest on departure, and is verified by the Charter Company on return. If anything is missing, it is deducted from the \$1,000 deposit. Again, if anything was lost or broken over the past year, it's been repaired or replaced.

- ❑ **Wear and tear of replaceable items** – This includes breakage and failure due to normal wear and tear.

I accept the fact that a certain amount of wear and tear is inevitable, given that the

boat is being used. Things such as sails, lines, and mechanical equipment will need to be replaced. Barefoot has provided an estimated maintenance budget to be set aside from charter revenue, based on their experience with similar boats. This budget is designed to cover replacement and repair as a result of normal wear and tear, which in effect, “replenishes” and “renews” the boat, as it gets older. So, down the road, the boat might have aged, but will be sporting brand-new sails, lines, sheets, bimini, heads, stove, refrigerator, pumps, cushions, etc, all financed by charter revenue.

For reasons unknown to me, I accidentally picked a great boat from Sunsail. It was well-chartered, but the darned thing never had any major problems during its five-year tenure. This good fortune followed me last year as very few things went wrong. Consequently, I stayed well within my maintenance budget, and replaced the following items:

- **CD player**– The one that came with the boat would operate for about 30 seconds before quitting. After three failed attempts to repair it, I hurled it to the bottom and ordered a new one.
  - **U/V strip** on the roller-furling genoa – the sail was in excellent condition, but the red U/V strip was faded and worn. I had it replaced it with a new blue one, which had a positive effect on the cosmetic appearance of the boat.
  - **Motor mounts** – This was an expensive, but necessary repair. It added no cosmetic improvements, but prevented the motor and drive shaft from causing major damage to the hull. You can’t win them all.
  - **Anchor windlass motor**– Anchor windlasses are the number one complaint of charter guests. They never work. Mine now does, for a while.
  - **Stove**– The stove is situated directly underneath a side vent that lets in rainwater and absolutely no air. After 5 years, this water rusted out the stove. Future guests will enjoy preparing their dinner on a shiny new unit.
- **Wear and tear of non-replaceable items** – Wear and tear items that accumulate and slowly cause the boat to look beaten up include gelcoat damage and scratches, dents and scratches to the cabin woodwork, staining due to salt exposure, and fading due to sun. These items are more difficult to correct because they cannot be simply replaced. A substantial refurbishment project is required.

Here is where Barefoot really does an excellent job. While most charter outfits turn the boat over to the next guest on the same day, Barefoot insists on 24 – 48 hours. While this has a slight impact on revenue, they use the time to really clean and inspect the boat. It is thoroughly polished for every new guest, and as a result, maintains a new look at all times. Small items that may need attention are promptly corrected. They don’t seem to get behind on the maintenance of the boat.

I was thoroughly impressed with the condition of the boat during my April 2000. The hull and decks glowed bright white. The thing looked sharp! I thought that it actually was in better shape than when I purchased it.

The dinghy however, looked more weathered from sun and salt, and I'm not real sure how long it will last. The door to the anchor locker broke off when the dinghy accidentally overturned, but was repaired. I guess that's what happens when you use something.

One area of ongoing annoyance is the continued loosening of the bolts that hold the cockpit lockers hinges and cabinet doors. Despite the use of double bolts and lock washers, these darned things continue to work themselves loose. Yes, there are annoyances in paradise.

## **Dollars & Sense**

The winter of 2000 was not a good one across all sectors of the Caribbean tourist industry. Bookings were way down for resort hotels, airlines, and all bareboat charter outfits. You could tell by the amount of advertised discounts during high season that demand was below normal. I think that this was partially a result of Y2K, a very mild winter in Canada and northeast U.S.A., and a busy season the year before.

In the end, the boat was chartered for 12 of the projected 20 weeks last season. The low and mid season bookings were almost on target. It was the high season that failed to materialize. Again, this was not a problem specific to Barefoot or The Grenadines, but the entire tourist sector.

Barefoot representatives have advised me that such cycles are normal in the business, and that the 20-week forecast is an average over many years in operation. The previous year was a blockbuster year for them, and I can attest to that because I kept an eye on their advertised discounts – there weren't any. Next year appears to be shaping up quite nicely, as I've already had 2 bookings in July, typically "no season", and it is already fully booked from October through December. There are January, February, and April bookings as well.

The fine condition of the boat translated into lower maintenance costs. In fact, I finished the year at 80% of the budgeted amount, and had not touched any of the Reserve Fund set aside for major repairs. Maintenance dollars were directed at a new stove, motor mounts, anchor windlass, and CD player, which should provide years of service.

In total, I still managed to collect a net income that was 30% of the original projected amount, and with only 12 weeks of charter. Previous calculations estimated that it would take 15 weeks to break even. The excellent condition of the boat and lower maintenance costs allowed me to see a positive cash flow in a slack year. I hope that this is as bad as it gets.

Alternatively, you could consider some of the items I classified under maintenance as one-time start-up items. The CD player, U/V strip, outboard motor crane, and a number of other items added up to over \$1,700. If you were to remove them from the operational budget, maintenance would have come in at 60% of the budgeted amount, and net income would have been 52%. I lumped them in with maintenance because I could afford to finance them out of that budget, given that it was well under forecast.

## **Paperwork, Paperwork...**

When I bought the boat in June 1999, the bank that provided the financing required that the boat be documented and a lien registered with the documentation. No problem, I thought.

I could not have been more wrong. (If you want to avoid a lot of pain, skip over this entire section.)

I was originally advised that registration in the USVI was the easiest and cheapest. I knew somebody who did it. When my deal closed, I learned that USVI registration required that the boat physically be in the USVI. I had always expected to buy in the BVI, so I never gave this any thought. When *Travel With Tin Tin* was purchased in St. Vincent, I now had a problem. Delivery would cost \$3,000 US, plus I would have to be there in person. There had to be a better way.

U.S. documentation required that I be an American, so that was out. I looked at other countries processes. Most were based on the British system (Turks and Caicos, BVI, St. Vincent, Cayman Islands, and of course Canada) that involved some very complicated paperwork performed to some very stringent standards. Required was a Certificate of Survey, a Certificate of Gross Tonnage, notarized Bill of Sale, proof of de-registration, and a whole lot more. Some countries even required that you set up a Corporation.

I chose good ole Canada because it was no more complicated than any other country, and would actually be cheaper in the end. A swell of national pride ran through me as I envisioned my boat flying the Maple Leaf. Unfortunately I underestimated our national appetite for useless bureaucracy.

Transport Canada insisted that a physical survey was required for the Gross Tonnage calculation, despite the fact that it was a production boat, and the required information was readily available from the builder. They further insisted that it be conducted only by surveyors certified by Transport Canada, and of course the list did not include any St. Vincent residents. The best I could manage was Lloyd's Registry out of Trinidad for \$3,000 US – and I would have to provide the blueprints and block coefficient calculations. After screwing around with these people for 2 months, I began to look for alternatives.

The boat previously had a Rhode Island State Registration. I contacted the State, and they confirmed that I could in fact “transfer” the existing registration. Unfortunately, the original Certificate of Title had been misplaced, so I was told. The State required that the previous owners (now working in various cities all over Europe) sign an application for another Certificate of Title (notarized of course, to maximize the inconvenience factor). A note from my mother would not do in this case. The State would then send them another Certificate of Title that they would sign over to me (notarized again, of course). This would take months, and the Bank was waiting...

On a hunch, I contacted Sunsail's U.S. office in Annapolis and learned that they in fact had the original Certificate of Title. It was not lost. I had them courier it to the previous owners for notarized signature. It took a further two months to get them together in the same city with a Notary Public to sign the document.

It took a further month for my lawyer in Toronto to locate a lawyer in Rhode Island to handle the paperwork there. Once secured, that lawyer assured me he could run the paperwork through in one afternoon. This went on for a further month. I guess he didn't specify which afternoon. The Bank was still waiting patiently, and I had used up every possible excuse by now. “The dog ate it” was the only one I had left by December; six months after the ordeal began.

I'll skip over some gruesome details that consumed a further two months. I cannot even bear to recall them. It was March 25, 2000, nine months after the paper chase began, that the registration and Certificate of Title was completed. Folks, don't try this at home.

## Incidents and Other Perils

During the past year, there were only two incidents to report:

- ❑ **Theft** - The outboard motor was stolen off the boat while on charter. This is a rare event but it nonetheless happened. Unfortunately for the charter guest, the insurance deductible was taken from their damage deposit. The motor was replaced with a more powerful one, all without my involvement or knowledge.
- ❑ **Hurricanes** - I monitored and tracked the progress of every hurricane that formed in the Caribbean last year. Not that there is anything I can do about it, I was simply interested in determining if my choice of St. Vincent as a charter base was sound, on the basis of its relative safety from hurricanes.

All hurricanes that formed in the Atlantic passed well north of St. Vincent, although Jose threatened at one time to produce a direct strike. I am satisfied that St. Vincent is in fact a relative safe haven from direct hurricane threats. This location has further advantage in that the boat could be sent easily to the hurricane hole in Tyrrel Bay Carriacou or to Venezuela if necessary. Barefoot Yachts additionally has hurricane moorings and bridles in the relatively protected Blue Lagoon. Several excellent options are available, and Barefoot actively monitors storm progress and makes decisions proactively. I no longer think about this.

Hurricane Lenny last November was a bit of a surprise in that it originated from the west, causing massive 15-foot storm surge. Because hotel, restaurant, and dock facilities are built on the water on the normally protected leeward side of the islands, they were subject to severe damage as a result of waves and erosion.

Barefoot Yachts suffered no damage during Lenny, as their base is protected by a reef that surrounds the Blue Lagoon. All boats were on their storm moorings in preparation, and the event passed without incident.

I happened to be on my boat in Martinique at the time, safely tucked into the well-protected harbor at Le Marin. While we were never in any real danger, we were concerned that we might unwittingly find ourselves in the path of this unpredictable storm. My experience there provided a valuable lesson in understanding the real danger of hurricanes. Basically, you have to be within 30 – 50 miles of the center before the wind strength increases to perilous amounts. Then you're in deep s\*\*t!

## Charter Company

I am generally very pleased with Barefoot Yacht Charters as a business partner. I find the personal level of attention I receive from Seth creates a level of trust, and with that, peace of mind. I simply do not think about the boat when I'm not on it.

The boat was in absolutely perfect condition when I used it in April 2000. It glowed bright white as a result of the polish it had been given. Everything worked, as it should. I'm not sure if Barefoot placed a special focus on my boat as a result of my arrival, but who cares. If the boat continues to show no visible signs of deterioration as a result of charter use, charter

guests are happy with the boat, and my account shows no major expense as a result, then who cares how they do it?

Barefoot has not treated me any different since I signed on. Seth responds to my E-Mails almost instantly, and with the same level of detail and precision that I enjoyed as a prospective owner. I cannot stress enough how important this is to your peace of mind.

### **Use of the Boat**

This is what it's all about, baby!

I managed to get down 3 times over the past 12 months. Each time, Barefoot treated me like a king, the boat was in excellent shape, and I had a real enjoyable time.

While it might make better financial sense to simply charter a boat when you want one, there is an additional feeling of being a part of the local community that ownership brings. As well, having the boat down there provides additional incentive to use it. I'm certain I would not be making 3 trips per year if I had to trick 3 other people into paying for a charter, booking it, and all that hassle. Now, I simply send an E-Mail, and an adventure is born!

### **Overall**

I am completely satisfied with this program so far. When I'm not on the boat, I don't think about it. When I am, which is fairly often, I really enjoy it. I am satisfied that the boat is being properly maintained, and it shows. While the past year was not a banner year financially, I did not have to put any money into the program. Next year appears to be shaping up well.