

Sailing over write-off seas

FINANCE

BY JEFF NACHTIGAL

If you can sail on San Francisco Bay, you can sail anywhere, the saying goes.

From the deck of the 54-foot executive yacht ElibriStar moored at Jack London Square, a brisk chop on the Bay doesn't sound so imposing.

And thanks to Don Durant, vice president of H&S Yacht Sales in Alameda and founder of Club Nautique charter service, anyone who yearns to sail can rent a top-flight sailboat and feel the salt spray, without sacrificing on comfort.

Durant also sells sailboats that will "virtually pay for themselves."

The boat doesn't come entirely free, there is a down payment. But if the boat is placed in charter service, the accumulated IRS business and personal income tax write-offs, plus income derived from charter rental fees, will cover a \$100,000, 60-month sailboat mortgage.

"If somebody needed a big write-off this year, this would be like magic," Durant said. "It's staggering what you can do."

There are two elements to the nearly free sailboat deal.

In 2004, IRS tax code Section 179 - also known as the SUV loophole - quadrupled, allowing a \$100,000 business expense write-off in the purchase year. If the sailboat is placed in charter service and the owner meets certain requirements, such as working on the boat a minimum of 100 hours per year; it qualifies as an annual business write-off.

But like most things that sound too good to be true, the deal isn't for everyone.

"Sometimes people come in thinking the charter is going to get them a free boat, and it's not going to work. If someone who makes \$75,000 comes in to buy a \$500,000 boat, it's just not going to happen. It works because of the tax benefits it brings," Durant said.

Durant likens chartering a sailboat to owning a tractor.

"What someone's doing by buying a boat and chartering it, is putting themselves into the equipment leasing business. Like a tractor; or the U-Haul business, it's a legitimate business expense, with depreciation," Durant said.

He pointed to surveys that show the average owner of a 35-foot to 50-foot sailboat uses it 15 times a year.

"That means the boat is in the slip a long time," said Durant. Putting a boat into charter service is a good way to keep it maintained, in addition to collecting rental revenue and the tax shelter benefits, he said.

Sailboat owner Michael Stead, who has put two sailboats into Club Nautique's charter service, agreed with Durant.

"I don't think anyone should buy a boat and put it into charter for tax reasons. There's better alternatives than that. You've got to really love sailing. I bought a boat and immediately put it into charter so it would be maintained by professionals," said Stead, manager of the River Aire Investment Co. LLC in Sacramento.

After 37 years in the boat business, Durant says he is still more sailor than salesman.

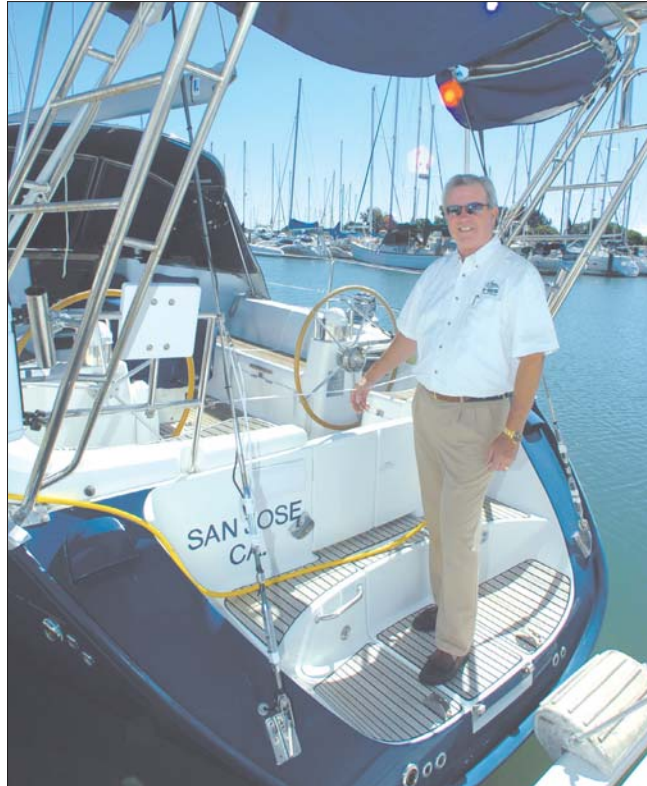
Boat sales, Durant said, fall between selling real estate and cars.

"It's a blend of empathy and ego to sell, you have to put yourself in their shoes."

Durant first sailed on Oakland's Lake Merritt at the age of 8. As a teenager, he raced sailboats on San Francisco Bay and developed an entrepreneurial instinct buying sailboats to fix up and sell after sailing them over the summer.

Durant's father, Donald Dwight Durant, owned a plumbing shop on Embarcadero Cove, across the narrow slip of water from Alameda. About the same time the elder Durant was helping develop the area - he bought Quinn's Lighthouse and the Southern Pacific East Oakland Station for \$1 each and had them moved to the Cove - he imported a Knarr sailboat from Norway and opened a boat dealership.

Durant gravitated closer to the boat business while varnishing and rigging sailboats in his father's Oakland boatyard. One day a prospective customer told Durant's father he only wanted to buy a boat from "that kid on the dock."



STEPHANIE SEGRETT | EAST BAY BUSINESS TIMES

Don Durant sells yachts and charters them, giving owners a whale of a tax break.

That kid was Durant, and a career matching buyers with boats was off and running. In 1970, Durant took over as manager of the boat dealership, and 10 years later he launched a charter business for \$100,000.

In the late 1970s, people scoffed at the idea of chartering an expensive sailboat to a relative novice and sending him out in the harsh conditions of San Francisco Bay. But Durant had a vision of pairing new, high-quality boats with higher membership fees that would allow him to better serve sailboat charters and boat owners.

In 1980, he found 22 open slips at San Francisco's Pier 39 and went into business with a partner. Not long after, he branched off and founded his own charter service at a cost of \$100,000.

Matching an upscale charter service with a boat dealership worked like a charm. Cruising Specialists, the yacht sales division of Club Nautique, fed the club new boats, and the club functioned as an incubator for new sailboat buyers.

Then the storm hit. In 1981,

Federal Reserve Chairman Paul Volcker imposed credit controls, which raised interest rates to more than 20 percent.

"I went from selling \$1 million in inventory a month to no boat sales for 60 days," Durant said. "I was just hemorrhaging because of the cost of inventory. The way I rode it out was I called the bank and asked them about merging."

Durant found a partner, and together they weathered the storm. Years later he would buy back the dealership.

"It's a model that's worked for 25 years," Durant said on a recent afternoon from his office overlooking Alameda's Ballena Bay.

Durant's premium-dues, premium-boats charter model is still unique today. Other clubs in the Bay Area lose 50 percent of their membership annually, but Club Nautique loses only about 10 percent of its 1,000 members yearly, Durant said.

Club Nautique, which competes with more than a dozen sailing clubs in the Bay Area, makes sailing instruction a pri-

Seaworthy five-year plan

Sailboat purchases can function as a tax shelter. A 31-foot, \$100,000 Hunter yacht qualifies as a full business expense write-off under IRS Section 179, the infamous "SUV loophole" tax deduction passed in 2004. Add charter business profit, maintenance savings and business depreciation tax benefits, and a boat mortgage can be paid off in five years as long as an owner spends 100 hours a year on the boat. Here's a typical scenario.

Total boat price, including sales tax: **\$116,357**
 Minimum suggested taxable income: **\$200,000**
 Down payment: **\$29,089**
 Amount financed: **\$87,268**
 Loan term: **60 months**
 Interest rate: **6.99 percent**
 Monthly payment: **\$1,728**
 Average operating profit: **\$3,573**
 Net annual cash flow: **\$1,068**
Five-year plan: Paid-off sailboat, clear seas ahead

H&S Yacht Sales

Business: Yacht sales
 Headquarters: San Diego
 Founded: 1989
 President: Doug Ament
 2004 revenue: \$70 million
 Address: 955 Harbor Island Drive, San Diego 92101
 Phone: 800-845-7420
 Web: www.hsyacht.com

Club Nautique

Business: Yacht charters
 Headquarters: Alameda
 Founded: 1980
 President: Don Durant
 Address: 1120 Ballena Blvd., Alameda 94501
 Phone: 510-521-5544
 Web: www.clubnautique.net

ority for its members. Well-trained sailors take better care of boats and sail more frequently.

Durant estimates he has sold 400 new boats that have been put into charter service. Some buyers opt to charter because it "adds a justification" for buying something so expensive, Durant said. But putting a new boat into charter service isn't for everyone: Only about 25 percent of his buyers can "mentally handle the idea of someone else using their toy."

Doug Ament, president of H&S Yacht Sales, said he wasn't aware of any combination charter service-dealerships in California, but he said the arrangement made sense. Boat dealerships operate on slim margins, and H&S's decision to acquire Cruising Specialists last year was influenced by Durant's reputation.

"Selling boats takes a ton of integrity, and Don has lived that way for 37 years in the business," Ament said. "It's a small world, and people find out, and you don't last without it."

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