

Raising capital isn't easy

By Steve Jordon

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Omaha entrepreneur Mike Zabawa plans to build a family entertainment center with bowling as its anchor.

Mike Zabawa is energized, not discouraged, after four years of trying to bring what he says is a new concept in family-oriented entertainment to Omaha.

He and his team so far have no investors on board, no developer lined up, no government-guaranteed bank loan in hand, no general manager hired or leases signed.

Zabawa, like many small-business owners and aspiring entrepreneurs over the last couple of years, has confronted the realities of the 2008 financial collapse and the worst recession since the 1930s.

And he has faced related challenges: a proposed location that didn't work out, the failure of a similar venture in Elkhorn, would-be investors who want bankers to show interest first and bankers who are waiting for investors to put up their money.

Yet Zabawa is convinced that "The V" — an entertainment center anchored by bowling lanes in an innovative V-shaped design — will be a financial success. If built, he said, it would fill a gap in the amusement field and could become a chain of perhaps a half-dozen such centers in and around Nebraska that would employ hundreds of people.

"There's money to be made here," said the Omaha native, a graduate of Creighton Prep, Creighton University and the University of Nebraska at Omaha. "Now's a great time to get in."

Entrepreneurs like Zabawa are prime candidates to create the jobs that everyone, from government policy-makers to job-seekers, wants to see.

But Creighton University economist John Deskins said the key is finding the capital to start such projects at a time when caution prevails.

"If potential investors are reluctant to turn loose of their financial capital, then entrepreneurs have a hard time moving, and they can't hire workers," Deskins said. "That's why the financial crisis catalyzed this much larger economic crisis."

He said Zabawa is not alone in facing a battle for capital.

The V's situation reflects the economic reality of today, a different financial world from 2006 when Zabawa began planning the project and different even from June 2008 when he left his job on the investment staff of Omaha's Kiewit Co. after a 20-year career.

The journey to The V began, Zabawa said, when he took his family out for an evening of bowling, put his name on a list for the few open lanes and then endured a long wait because league bowlers occupied most of the facility.

There wasn't much else to do, he said, and the kids, predictably, got bored.

He heard about developers in other parts of the country who were taking advantage of a generational change in bowling. Instead of the regular weekly league, these new hybrid and boutique bowling venues courted casual bowlers — families, young couples on dates, corporations trying to build camaraderie and leadership among employees.

"They're there to have fun, not just to bowl," Zabawa said.

These new centers offered a wide range of family-oriented activities: laser tag, pool, game rooms, rock climbing, mini-bowling, darts and shuffleboard, along with casual dining and alcoholic beverages.

He remembers thinking, "There's got to be an opportunity here."

"It kept bugging me. Omaha really lacks world-class family entertainment."

He hired a nationally known consultant, Jerry Merola of East Brunswick, N.J., who also concluded that Omaha possessed all the ingredients for success — a large, stable population area, a lack of competition for entertainment dollars and a financial structure that the business can support.

Merola said investors are looking for places to put their money because many traditional investments have declined or fallen short of the returns they want. After a year of "lockdown," one new center is due to open in April in Newport, Ky., near Cincinnati, and others are moving ahead, Merola said.

"Investors are willing to take calculated risks," Merola said, but they need to have a solid understanding of the merits of a project.

He said Thunder Alley, an 80,000-square-foot entertainment center in the Elkhorn area that closed suddenly last June, differed from Zabawa's project.

Built from the ground up, it was too far from Omaha's population core, Merola said. It also was too big and included things like a go-kart track that were expensive to operate and didn't generate enough revenue, he said. And with 40 bowling lanes, Thunder Alley relied too much on a traditional clientele that didn't spend on other types of entertainment, Merola said.

"Greater leverage, greater risk. You had a very significant real estate budget that towered over the actual operating budget. That puts a tremendous burden on any project."

Merola said most such projects take about four years to complete, so Zabawa is on track, especially given the past 18 months of financial turmoil.

Zabawa, whose family is living off its investments, did his homework to create a first-class business plan. He attended trade shows, met with equipment suppliers and fellow entrepreneurs, and visited dozens of similar facilities, including venues called the Main Event in Texas, 55,000-square-foot entertainment centers with bowling alleys surrounded by other entertainment options.

An Australian company's purchase of Main Event for \$45 million in 2008 spurred him on. "That got me excited."

Zabawa arranged each pair of bowling lanes in a V shape, to add space for more comfortable seating that faced forward rather than sideways. He dedicated space on the blueprints for laser tag, a restaurant, a game room and other features.

He took the plan to developers of Aksarben Village, a mixed-use project near 63rd and Center Streets, and architects penciled in The V on the ground floor of the complex's entertainment center.

"They loved our project," Zabawa said. "Then the world changed."

In the fall of 2008 credit markets froze and the stock market sank. There was no financing for The V in sight. The Aksarben developers envisioned The V as a smaller facility, and the two groups parted company. After a delay, Aksarben Village developers moved ahead with a building complex containing a theater, an athletic club and restaurants.

"This was a bump on the road that I was willing to wait out," Zabawa said.

As 2009 moved on, he revised the plan. He would lease space along West Center Road, somewhere between 120th and 168th Streets, a "power trade corridor" with 200,000 people living nearby. He plans to renovate a vacant commercial building,

"The landlords are just begging for good tenants," Zabawa said.

Entertainment venues have been "recession-resistant," he said, especially given the estimated \$18 per-person average cost of an evening at The V.

Zabawa now is shopping his plan, with a \$6.7 million start-up budget, to banks and potential investors. Some banks are interested, he said, but want at least 40 percent in private funds to qualify for a \$3.5 million federally guaranteed loan.

He said he has talked with about 15 individuals and groups about becoming partners or making private loans — \$1.5 million in unsecured debt, \$1.2 million in ownership shares and \$500,000 from a tenant improvement allowance and loans from vendors.

"In the Omaha market, things are starting to thaw out," Zabawa said. "We're in the early stages of the equity race. We've gotten a good response, but it takes time for people to understand the concept."

If the Omaha project succeeds, Zabawa said, he envisions replicating The V in Lincoln, Kansas City, Des Moines, Sioux Falls, St. Louis and Wichita, with an overall capital need approaching \$50 million.

"It's a very inefficient process to raise private capital in our market," Zabawa said, often a matter of being introduced to the right people rather than going through any sort of organized clearinghouse for capital investment. "But we've got a great start at this point."

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