

The Superyacht Annual Report

Wealth

2018

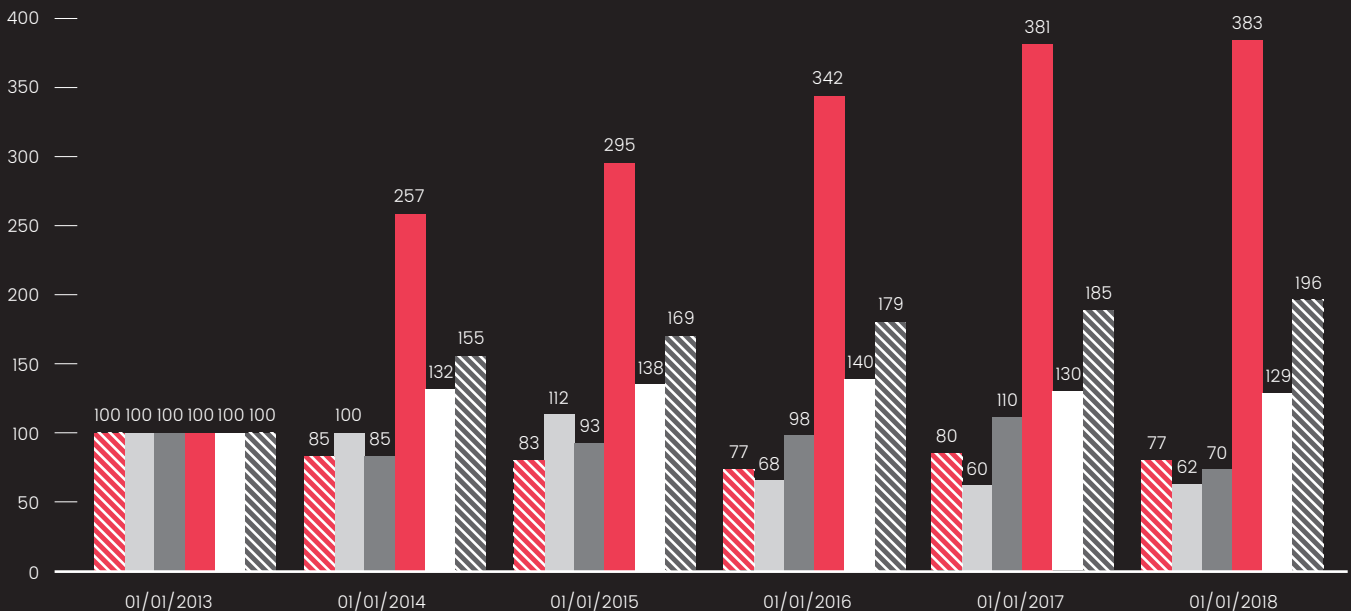
SUPERYACHT INTELLIGENCE

Performance of new-build deliveries and second-hand sales vs other financial luxury assets (2013-2017)

New builds*
 *Not measured in monetary terms

Crude oil, average (€/bbl)
 Gold (€/troy oz)
 Classic cars
 London luxury houses
 KFLII

Performance Index



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WELCOME LETTER

We are taking to the stage at RAI Amsterdam on 12 November to present the findings of this report as we aim to map out ‘the perfect customer journey’.

The report provides some context to what our target clients are doing with their money because the reality is that while we do some amazing things in this industry, we simply aren’t getting the formula right for attracting new clients into the market. Even by generous estimates, only about five per cent of those who can afford a superyacht are actually buying them.

So what are we doing wrong? Why are potential clients spending their money on classic cars, islands and multiple properties instead of on the greatest experience they can buy for their families and friends?

In my opinion, it’s because our story isn’t being told. Or, at least, not being told as well as it should be. We are not using joined-up thinking and perhaps not appreciating how all of these amazing ingredients that go into our industry could result in the most incredible recipe – if only we worked together.


Therefore, what we are hoping to do with both this report and then The Superyacht Forum in Amsterdam is join up all these dots. By painting a picture of how this industry performs, how it works, how it interlinks and how it produces the ultimate luxury product, we can change that five per cent into 10, 15 or maybe even 20 per cent of the possible client pool.

Here’s to mapping out the perfect customer journey!

THE PERFECT CUSTOMER JOURNEY

MARTIN H. REDMAYNE





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THE PERFECT CUSTOMER JOURNEY

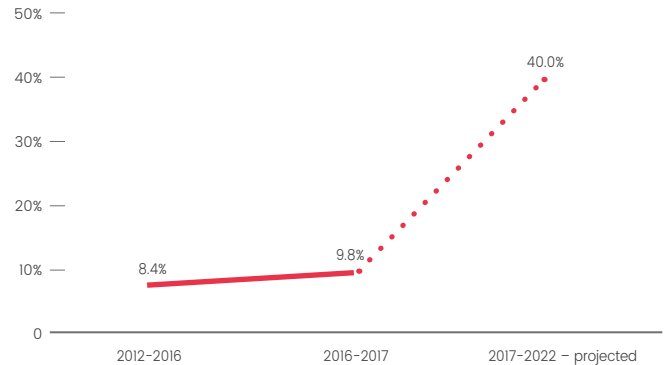
We invite experts from every stage of a superyacht's lifecycle, to set out their sector's best practice.

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OWNERSHIP

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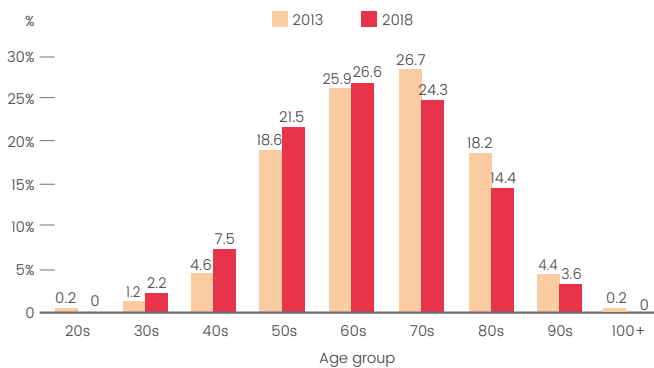


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The Superyacht Intelligence Agency represents the industry's most comprehensive pool of superyacht consultancy expertise. With more than 25 years of experience in data gathering, research and market analysis of the large luxury-yacht sector and a network of over 40,000 contacts, The Superyacht Intelligence Agency is the go-to partner of C-suite executives and key industry stakeholders for data and consultancy projects.

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A LETTER OF THANKS

William Mathieson takes a moment to offer his appreciation for an esteemed contributor to this year's report ...



BY WILLIAM MATHIESON

It was back in the midst of our long hot summer (not something we British get to say very often) that we first began planning the methodology for this report. Of course, we had confidence in the veracity of our own superyacht data; analysis of that particular market is our bread and butter. But in order to place the market in a broader context – one that highlights the nuances of ultra-wealthy spending, investing and sentiment – we felt we needed a collaborator of international repute.

The reason I mention the weather is not just because I'm British. Upon setting out our methodology, we identified the renowned luxury real-estate consultancy organisation Knight Frank (authors of their own wealth report and respected around the world for their prudent advice to UHNW clients) as an ideal partner with which to share data – and collaborate on this project and beyond.

After some very promising initial conversations, we agreed to meet at the Knight Frank head office on London's Baker Street. Project strategist Russell Cockerton and I set off across the city for a midday meet in 33-degree heat. Despite Russell's warnings, I placed my faith in London's buses, which I believed to be air-conditioned; as it transpires, they are not.

The result was our late arrival at the

air-conditioned offices, utterly dishevelled and as if buckets of water had been poured over us. As we sheepishly walked into the meeting – and made our apologies – we didn't hold out much hope.

But here we are, collaborators on this inaugural Wealth Report, and at the beginning of what I hope will be a very fruitful intelligence-sharing partnership. The reason we weren't roundly laughed out of the building is because Knight Frank and The Superyacht Group share a mutual commitment to the veracity of smart data and the value it affords its clients. We both believe that when numbers are evaluated in the right context, they can offer insights that further the collective lot of an entire market.

We are committed to enhancing and refining our data, and this is a constantly evolving process. Part of this journey is to partner with the most respected consultancies in the business arena because we have shown it to be a mutually beneficial process.

Our strategy for 2019 is to further grow this network of respected data partners while at the same time bolstering the profile and reputation of the superyacht industry as a legitimate manufacturing sphere. We would, therefore, welcome any invitations to discuss this further. **WM**

Charting the right path
Katya Grzeszczak, sales and charter consultant at IYC, highlights the perfect charter journey for superyacht clients.



WHILE EVERY YACHT IS A PIECE OF FLOATING ART IN ITSELF, COUPLED WITH ENGINEERING GENIUS, IT IS THE CREW ON BOARD WHO USUALLY HAVE THE CHARTER CLIENTS RAVING.

When it comes to such a luxurious and (to many) exotic market as yachting, more often than not our clients prefer to ‘try it before they buy it’. This means that nearly every yacht owner I know started their love affair with yachting through charter. From there, some move on to purchase their own ‘floating private paradise’, while others continue chartering for many years to come.

Of course, there is no right or wrong way and everything depends on individual needs and desires. However, one thing is certain – as most of my clients will tell you, once you experience a ‘yachting holiday’, there is no other way to vacation from that point on! Families bond through exploring, adrenalin and endorphins flow when playing with water toys, stress melts away into the surrounding tranquil waters and even sleeping patterns get restored, so I’ve been told.

For me as a charter broker, there is nothing more rewarding than receiving photos of my clients beaming with smiles during their charter. I find walking a first-time charterer through the process particularly satisfying, giving them confidence that this rather costly holiday would be worth every penny. And while every yacht is a piece of floating art

in itself, coupled with engineering genius, it is the crew on board who usually have the charter clients raving. In contrast to the inaccurate portrayal in the so-called reality show *Below Deck*, the crew we work with are extremely professional, well educated and very capable of delivering five-star service and above.

A lot of planning goes into preparing for a charter, well before the charter clients come on board. Alongside the captain, charter brokers will organise every detail. They will develop a personalised cruising itinerary, plan shore excursions, water sports, meals, often organise birthday parties or anniversary celebrations, or hire special performers and so much more!

The beauty of a yacht charter is the absolute privacy – something that many of our high-profile clientele value the most – the ability to explore remote locations, secluded bays and deserted beaches and just be at one with nature; all while being able to go into a marina and step ashore any time the charterers wish to go dancing in a nightclub or dine on land. However, as most of my clients say, yacht chefs prepare meals that are tastier and more creative than any Michelin-starred restaurants ashore. Yacht chefs

are extremely versatile and familiar with most world cuisines, as well as with multiple dietary preferences. I just had a charter that finished in the Balearics where we had two guests who were vegans, two vegetarians, two pescatarians and four others who enjoyed everything. It takes a very talented and experienced chef to prepare four different types of foods for each meal service and this chef did it!

In general, we are seeing more and more private yachts entering the charter market. I believe it’s a win-win situation for the owner, the crew and the charterer. The owners often don’t have as much time as they would like to enjoy their yacht, and chartering ensures the yacht is being appreciated and some of the running expenses are being offset. The crew are always happy to stay busy and cruising, as opposed to sitting in a marina, because usually it’s their love of the sea that brings them to work on yachts. And, of course, it’s a real opportunity for the charter client to enjoy the most luxurious way to relax and experience what yachting has to offer.

It’s great to see the charter industry booming and more people getting their Vitamin Sea than ever before! **KG**

Tempus Fugit

Olivier Blanchet, head of jet and yacht finance at BNP Paribas, explains why maritime bankers are helping new superyacht owners to invest in that most precious of commodities ... time.

THE PRIORITY WITH A SUPERYACHT IS NOT TO MAKE MONEY, RATHER TO MAXIMISE THE WAY YOU SPEND YOUR MONEY ON THAT SCARCE RESOURCE OF TIME.



As a maritime banker at BNP Paribas Group, the first thing I do is listen to our clients, analyse any regulation changes and update our intimate knowledge of the role and mission of everyone along the value chain of yachting to be in a position to give advice that will create value for an owner.

To me, as a financier offering lending, the interests of the owner and the bank are aligned: to preserve the yacht's value and optimise the operating expenses – which doesn't mean minimising operating costs.

A younger generation of wealthy individuals is transforming the broader luxury landscape accessed by UHNWIs. Both inheritance and entrepreneurial wealth accumulation are driving this shifting demographic and the immediate consequence is a change in the requests of future owners to the shipyards and also the banks.

This change is marked by a move from accumulating tangible assets to pursuing rare, tailored experiences. There is a lifecycle to the yachting experience that allows it to return dividends on time invested, from the planning of the yacht's build to the memories that endure long after clients have returned to shore. It means these clients are demanding that the return on their most precious possession – time – is increased at every opportunity.

The priority with a superyacht is not to make money, rather to maximise the way you spend your money on that scarce resource of time. There-

fore, as bankers, we believe the maritime and financial advice we share with our clients should make the difference. We offer clients the chance to leverage on our BNP Paribas network, financial experience and maritime skills and therefore, ultimately, save time.

Supported by our analysis of the superyacht market, the yacht's value resilience over the past 15 years and UHNWI trends, our offer from pre-delivery financing to refit finance has to deliver embedded maritime advice.

As you may have noticed, so far I haven't even mentioned how difficult it is to finance a superyacht or how we finance a superyacht with terms and conditions because there is no one simple answer. The starting point is to understand the rationale behind acquiring or building a negative cash-flow asset for which expectations of financial gain are low.

First of all, we identify the expectations of our clients or prospective clients. Since we are dealing with a bespoke fully customised asset, our financing is also tailor-made to the project itself and the emotional ties of our clients as lovers of the seas.

The financing structure and the support we bring to the owner is the result of our matrix analysis whereby we look at the client profile in terms of compliance, the depth of the banking relationship with BNP Paribas Group, the yacht pedigree and the quality of all the maritime providers around the superyacht.

We want the best for the client in terms of project and yacht manage-

ment, shipyard, crew, commercial and technical manager, maintenance and certification because we also want the best for the bank. The superyacht remains the key security for the lender.

We put in place a second layer of checks and due diligence, assisting the family offices and the owners until the resale, if any, drawing attention to specific points related to the yacht and sharing with our clients best practices as experienced in the past, utilising our sectorial expertise acquired throughout the BNP Paribas network.

We 'take the pain' so that the client enjoys their ownership experience. Our objective is to save time for the owner and their family office. We all know time is money and the bank will be paid for this. The trade-off we offer is clear: tell me who you really are and what your project acquisition is and then we will provide you with the best advice we can because our financial interests in the projects are aligned. It is worth mentioning that the bank and the client are committed to building up a long-term relationship that might be different from that with other maritime providers.

From our perspective, the three aspects you should take into account when looking for finance is: be as transparent as you can on the project and be prepared to explain the reasons why you are looking for finance; have a balanced relationship with your banker to optimise the financial parameters; and get adequate maritime advice and support from the bank to save time, money and ensure the owner is happy. **BB**

A brokerage boat-buying advisory Northrop & Johnson sales broker and new construction expert Joe Foggia highlights some of the key considerations for those seeking to join the elite fleet of superyacht owners.

You often hear the industry referring to a superyacht as an ‘emotional investment’ for a buyer and it is not wrong. While superyachting clientele tend to be rich in a financial sense, the emotional side of the purchase often detracts from making sensible financial decisions in a business-like manner. I, for one, regularly hear brokers say, “If only they treated their yachts like they did their businesses.” Buying a yacht must be a daunting experience. I often figuratively remove myself from the industry and observe how it’s structured through the eyes of a newcomer. Where would I start? Who would I speak to first for advice? How would I find that person to put my trust in?

Choose a trusted broker and brokerage house

If a buyer does not have an existing relationship with a broker, this needs to be researched diligently. The buyer needs to consider where the firm’s market is – what its track record is for sales in the desired market sector and where its core expertise lies. Buyers must do their due diligence to find out who they are dealing with, as they would in any business. More and more yacht buyers are trying to cut brokers out of the process, but you get much more value than your commission’s worth with a good broker, who knows the intricacies of the product and the market, on your side.



ENSURE THE VESSEL HAS HAD A THOROUGH CHECK FROM A PROFESSIONAL, QUALIFIED SURVEYOR – NOT JUST A ‘TICK-IN-THE-BOX’ INSPECTOR – PRIOR TO PURCHASE.

Set clear parameters for your search

More often than not, brokerage boat buyers will have experience of chartering or are previous owners. It's important that the buyer and broker have a mutual understanding of what the end goal is in terms of use – that is, what size and type of boat is required to suit the lifestyle, desired experience and cruising/berthing plans of the buyer. Do they want to offer the boat for charter or operate it privately? What is the budget? Would the buyer prefer an older boat with good refit potential or a newer product?

Be patient; do as many viewings as it takes

You'll know when it feels right. If anything, the more viewings you do, the more you learn about what you want. You should stick to the stringent criteria set out in the parameters above, but don't be too strict with your search requirements otherwise it gets too confusing.

Analyse comparables

Brokers should conduct market analysis on the pricing of the yacht, factoring in the price and condition of comparables. If something is listed towards the low end of the market, that should be a good deal, but you have to question why it's a good deal

and do a thorough inspection and background check. If it's at the top end of the market, obviously it may take some negotiating to adjust the – typically high – expectations of the seller.

Consider refit options

The general arrangement is absolutely paramount in the decision-making process. It's important to consider whether modifications need to be made structurally and how much they might cost. Additionally, hard surfaces such as marble and granite can be costly and time-consuming to replace or fit.

State of the market at time of purchase

If you can find at least five comparable boats for sale that meet your search parameters, it's a good time to buy. The reason for this is because you can play them off against each other and ensure you are getting the best deal as far as the product and price are concerned.

Submitting an offer

Based on market analysis and comparable yachts on the market, I normally start with an offer 15 per cent lower than the asking price. If buyers want to start lower, they can, as long as it is not known that the seller has already not countered a similar offer.

Check particulars

It is important to check the documentation of the central-agency listing and know up front the particulars of the deal. If a buyer reaches a late point in the negotiation only to find out that some of the art work, china or tenders etc. are not included in the deal, they may end up disappointed. Ultimately, it could be a deal-killer.

Use a qualified surveyor

Ensure the vessel has had a thorough check from a professional, qualified surveyor – not just a 'tick-in-the-box' inspector – prior to purchase. Using a variety of testing methods, the surveyor should check the overall condition of the boat – most specifically, the machinery on board. Samples and readings can be taken and later compared to factory specifications. The survey report can be used as a negotiating tool for deductions when it comes to agreeing a price with the seller.

Protect yourself with industry-standard contracts

There are standard memorandums of agreement in the market for a reason – they are the end product of a wealth of experience. A buyer should always work in collaboration with recognised industry bodies and their sales and purchase agreements, such as the MYBA and IYBA memorandum of agreements. **JF**

Flying the flag

Choosing the right flag for your yacht can influence its value throughout its life as well as affecting day-to-day operations, says Philip Naylor, safety and security manager at Burgess Yachts.

WE FIND THAT FLAG STAFF ARE KNOWLEDGEABLE, EXPERIENCED AND WANT TO PROTECT THE FLAG'S REPUTATION. WHERE THEY VARY IS IN THEIR ABILITY TO RESPOND QUICKLY AND PRAGMATICALLY TO UNUSUAL SITUATIONS.



Selecting a country of registration for your yacht can be driven by anything from the reputation of the country itself through to beneficial ownership structures and taxation. It is often seen as a complicated decision based on a range of advantages and disadvantages. It may therefore serve to treat it as a two-stage process: firstly, choosing the shipping registry under which the design is approved, the construction is supervised and the completed yacht is certificated, and secondly, deciding which flag to fly once in service. These need not be the same and a yacht can be reflagged immediately upon delivery. The decision can boil down to international maritime regulations and how they have been adapted over time to accommodate large yachts.

All ships that trade internationally have to comply with regulations on safety, pollution, crew competence and more. These are agreed at UN level by the International Maritime Organization (IMO), and are adopted in the form of international conventions which each UN member state ratifies by writing them into their national law.

They are really aimed at large commercial ships where industrial design principles apply. It's why, in 1997, the UK Maritime & Coastguard Agency (MCA) developed the very first Large Yacht Code – a set of 'yacht-friendly' rules that would achieve an equivalent standard while allowing for the design and construction of good-looking, high-quality vessels.

The MCA Code was adopted by the other Red Ensign shipping registers and is a ready-made, recognised standard for countries aiming to attract large yachts. Other registers have produced their own codes, with a broader range of registration categories for more flexible operation, and greater

flexibility in how some regulations are interpreted and applied.

The choice of code for a new-build yacht defines its standard for the rest of its life. In our experience, a yacht that is designed, constructed and maintained in accordance with the REG Yacht Code (YC) can be re-registered with another REG member (or one of the other principal yacht registers) quite easily and at low cost. It can more complicated, and probably more expensive, to re-register a yacht that has been designed to another yacht code's standards. That's not to say other codes are of lesser quality but rather that their standards are not as widely understood or accepted.

A REG register will often employ its own surveyors to supervise the construction and issue the necessary certificates of conformity, giving the owner an additional measure of quality assurance. This can also lock in additional residual value – it makes it easier to switch flags and the yacht becomes a known quantity to brokers and future purchasers.

Once built and certified, an owner should choose the shipping register that best suits their requirements. Considerations could include the quality of legal title provided by registration, finance and ownership structures, tax planning, whether the yacht is going to be used commercially, and the perceived quality of flag.

Registration confers nationality on a yacht and the certificates of registration and compliance act like a passport, and the warmth of welcome by the authorities will vary according to the ship's flag. The most influential factor here is the safety performance of a flag and its ranking on a table produced by the Paris Memorandum of Understanding on Port State Control.

A flag administration with a good inspection record will be assigned to the Paris MOU White List and their ships will be able to call at ports without much difficulty or intervention. Lesser-quality flags are assigned to the Grey List, and their ships are subject to much more attention from safety inspectors. Really poor-quality flags that accept substandard ships are consigned to the Black List, which is to say they are not welcome at all.

From an operational perspective, the optimal flag choice would be influenced by cost, responsiveness and customer focus. Burgess works with six yacht registers on the White List. The differences between them are marginal and differentiation comes down to a combination of responsiveness and attention to customer requirements – particularly when a problem requires urgent solution. We find that flag staff are knowledgeable, experienced and want to protect the flag's reputation. Where they vary is in their ability to respond quickly and pragmatically to unusual situations. A flag administration that responds to an enquiry promptly by reciting the regulatory requirement is of no more value than another that takes three days to decide how it can be very flexible.

The perfect scenario would be a yacht designed and constructed to a universally recognised code such as the REG YC, then certificated and registered with a REG flag that specialises in large yachts. That will give the yacht an internationally recognised pedigree, locking in value at the outset. If an owner wishes to re-register the vessel with another flag, they can do so quite easily and without being too concerned about the need for adaptation or upgrading to meet the requirements of the new flag administration. **PN**

Trust, transparency and communication

Daniel Küpfer, managing
director of Ocean
Management, the yacht-
management division
of Ocean Independence,
discusses yacht-
management best
practices and what role
they play in the perfect
customer journey.

As yachts increase in length and tonnage, so do the claims on their owners. Running a yacht is as complicated and involved as running a midsize company; from crew and HR to safety and maintenance, to flag and regulatory issues, ownership encompasses a complex labyrinth of obligations. Since everyday life brings enough of its own responsibilities, it is important that your yacht – an object of pleasure and escape – doesn't become a chore.

Over the years, the ownership landscape has evolved considerably. Owners and captains face an ever-growing, ever-changing sea of rules, regulations and red tape. While yachts once sat firmly in the leisure sector and an owner could feasibly run their vessel comfortably with a competent captain and shoreside accountant, yachts today have shifted into what can only be described as an operational subset of the international shipping community.

Operating in such a complex regulatory environment means it's fundamental to have efficient, shore-based support. That is where a yacht-management team comes in; understanding the intricacies and complexities that it takes to manage these super-yachts, as well as the support and service that captains and crew require, means they can take care of everything from crewing to tax, VAT and compliance, allowing the captain to run the yacht without being overwhelmed by administration and the owner to simply enjoy the asset.

In my opinion, the ability to offer an exceptional, informed service ultimately comes down to the team you create. Ideally, a yacht manager has



FLEET TRANSFER KNOWLEDGE HELPS TO REDUCE COSTS BEFORE THEY EVEN INCUR AND BECOME VISIBLE TO THE OWNER.

a commercial-shipping background with some experience as a captain, deck officer, chief engineer or naval architect. Understanding and keeping abreast of the regulatory environment and managing large yachts requires the knowledge, structured thinking and quality management that is learned from working in the commercial realm.

But the superyacht sector is not the commercial sector. While many of the regulations may put the yachting world in the same box as commercial shipping, the truth is that superyachts are in a class of their own. Understanding this difference and this balance is key to taking care of all of the operational issues surrounding your yacht. As a result, yacht managers also have to have experience at sea on superyachts, ensuring they know firsthand how these vessels are run and the levels of service that are expected.

Trust, transparency and communication are key to the successful relationship between a yacht-management company and owners and captains. I strongly believe you have to assign a dedicated yacht manager to every yacht to make it possible to build a strong, personal partnership. Honest, regular meetings are conducted in person where possible and each manager is permanently available, acting as a point of reference for the owner and captain.

Owning a superyacht should be one of life's greatest joys. These sophisticated leviathans offer ultimate levels of privacy, luxury and freedom; a personal retreat that can take you anywhere, with a crew that innately understands your every preference.

But ownership can be fraught with frustrations. Finding and keeping that professional, intuitive crew, for example, can be tricky. A competent yacht-management company needs to be skilled at administering and managing yacht crew, as well as recruiting accomplished, qualified and capable captains and crew.

A yacht manager will select, interview and background check all candidates before also taking care of employment details unique to this industry: employment agreements in line with international and Flag-state regulations, such as the Maritime Labour Convention (MLC) 2006, travel and visa arrangements, crew training and support, performance-monitoring. Managers who have had experience as crew will understand the qualities they need and how to keep them motivated, meaning that the yachts they look after will experience minimal crew turnover, resulting in a more economical operation of their yachts, while also operating at an enhanced safety and service level.

But it isn't just about crew: a professional yacht-management company can advise and take the lead on everything from corporate ownership to the benefits of registering your yacht under the ideal jurisdiction. Their relationship with you and your captain means they understand your specific requirements better than anyone and can offer tailor-made solutions for every situation. By partnering with a team on a full operational management package, you can be safe in the knowledge that your yacht will always be operated efficiently, safely

and intelligently. Whether it is crewing, technical management and inspections, safety and security audits, cost control or payments and accounting, yacht managers have the expertise as well as a dedicated, specialist support team behind them. A 24/7 global emergency support promise means that when something does go wrong, your manager will be on hand immediately to help get it resolved as quickly as possible.

Working with a manager will undoubtedly make your life easier, save you precious time and it will help save you money. Maintaining and operating a yacht is a costly undertaking. By working closely with captains, yacht managers can not only help control expenses using a wide network of suppliers and service providers but also, by implementing a proactive and preventative maintenance programme, keep repair and maintenance costs to a minimum in the long run and ultimately secure resale value. Fleet transfer knowledge – in other words managing more than one yacht – helps to reduce costs before they even incur and become visible to the owner.

Serious management companies also have a decisive no-commission policy for services rendered to their clients under the management agreement, therefore clients will receive the entirety of every saving that the managers secure. Engaging a professional management company prevents owners from 'reinventing the wheel' when managing their yacht, therefore avoiding frustrations and allowing them to enjoy yachting at its best. **IK**

The fiscal frontier Ayuk Ntuiabane, VAT director at tax experts Equiom Solutions, discusses the fiscal element of a client's journey to superyacht ownership.

Value Added Tax, or VAT, is a broadly based consumption tax that applies more or less to all goods and services that are bought and sold for use or consumption in the European Union (EU). In other words, goods that are sold for export, or services to customers abroad, are normally not subject to VAT. Conversely, imports are taxed to keep the system fair for EU producers so they can compete on equal terms in the European market with suppliers from outside. So if your superyacht is to be built, bought, sold or used in the EU, you will have to consider the demands of the VAT system. Together with the Customs Union, the EU VAT system is the fiscal frontier to cross.

Think before you sign

If you are about to buy a large yacht, then think before you act. If you want your yacht to circulate freely in the EU without incurring a large VAT bill, it is essential to seek good advice before you begin the transaction. The ownership structure should be correct and the new-build or purchase transaction should be properly thought through. If this has been done, then VAT can be minimised or in some cases eliminated. But once you have started a transaction it is very difficult to go back and unpick it, and you can end up with a large and unnecessary VAT bill the first time you move the boat across a border or buy items for it in the EU.

Most high-net-worth individuals who buy superyachts want to own them through companies and they want to be free to operate them anywhere in the EU. There is sometimes pressure to do deals quickly and order yachts to ensure delivery slots. But it



COMPLIANCE WITH VAT LEGISLATION IS A STATUTORY OBLIGATION AND DOES NOT JUST HAPPEN ON ITS OWN. IT REQUIRES PLANNING AND FORETHOUGHT.

is important to get the VAT right from the outset, wherever you live and wherever the yacht will be built or bought from. If not, then once it enters the EU, there will be complications.

There are a number of jurisdictions you can use to structure a company to own the asset. Some of them have high-quality commercial yacht registries, but not all will achieve your fiscal objective. The most important thing is to get the purchase contract right before anything is signed.

What's in a flag?

The quality of the Flag state and its reputation, its attractiveness to insurance underwriters, lenders and charterers, the security and ranking of mortgages, service levels, flexibility, costs and port-state control intervention are all vital. Often there is a need to strike the right balance between these factors to make the correct choice of flag. A vessel's registration is, after all, its passport to sail in international waters, and a good choice is critical. But if that choice is made without prior thought for the VAT consequences of transactions and operational structure of the yacht then it may need to be undone.

Owners who qualify to use their yachts tax-free in the EU under the Temporary Admission regime are often surprised when told they must change to a non-EU Flag state to benefit from that relief. Therefore, even the ordinary act of flagging a

yacht that is to be used in the EU can go wrong if the VAT impact has not been analysed.

Call it VAT planning

VAT planning in the context of yachting embraces all sorts of things. It may simply involve an advisor, with no particular specialism in VAT, counselling a client setting up a new yachting structure that it may be necessary to register for VAT. Or it may take a VAT specialist looking at a particular business scenario, identifying the detail of the relevant legislation and devising special structures to get a particularly advantageous VAT result. Either way, it has nothing to do with making raids on the revenue of EU member states.

The essential characteristic of VAT planning is that it requires a proactive attitude – identifying problems before they arise or grasping opportunities that exist. It is much to do with ensuring that contractual arrangements between counterparties are satisfactory for all concerned and that VAT consequences are properly factored into yachting decisions before they are made.

Six of the key objectives

VAT planning for yacht owners has a number of key objectives:

1. Compliance: compliance with VAT legislation is a statutory obligation and does not just happen on its own. It requires planning and forethought.
2. Business planning: in the sense of

analysing the VAT consequences of transactions and structures so as to be able to forecast their impact on the overall position of the yacht.

3. Management of unnecessary VAT costs: this does not mean trying to get out of liabilities that ought to arise. The objective is to prevent the artificial generation of liabilities.

4. Management of penalty and interest costs: the existence of VAT penalties and interest provide further reasons for planning to achieve proper compliance.

5. Improving cash flow: within the EU VAT system, there are ultimately payments to be made or repayments to be received. The timing of these payments and repayments can be important because of the sheer size of the sums involved.

6. Minimising administration: for a fully taxable yachting business, the administration involved in complying with the basic VAT system should not be underestimated. It involves recording each transaction, preserving evidence, generating VAT-related documents, etc. Careful planning, combined with specific agreements of easements with customs and VAT authorities, can help to reduce this burden.

When it's the yachting season in the picnic grounds of the Mediterranean, and the harbours are filled with luxurious superyachts, proper planning will ensure that EU VAT need not spoil the party. **AN**

Bringing value to the table

Adam Ramlugon, managing partner at Bargate Murray, outlines why the appointment of a diligent legal team pays for itself many times over.

SPENDING TIME GAINING AN UNDERSTANDING OF THE OWNER'S PERSONAL CIRCUMSTANCES AND PLANS FOR THEIR FUTURE – AND THOSE OF THEIR FAMILY – IS ESSENTIAL TO DELIVERING BEST-IN-CLASS ADVICE.



While (I would hope) the majority of superyacht professionals appreciate the value of a good lawyer during a transaction, you may be surprised to learn that some new entrants to the market question what we bring to the party.

This is not something that should ruffle any experienced lawyer's feathers. On the contrary, you should be prepared to answer it – as should any industry professional. Indeed, when considering what is legal 'best practice' in our industry, the question of what a superyacht lawyer actually does is a good place to start.

For example, let's take a new-build construction project of a similar size and scope to the last one my colleagues and I dealt with. Here, we are talking about a yacht of more than 120m in length that will cost its owner upwards of €300m. To the vast majority of us, that figure alone is staggering.

If that sum was the budget for the construction of a new skyscraper in the City of London, no one would question that perhaps dozens of lawyers would be needed to protect the interests of those involved – not least the party putting up the money to build it.

This, for me, is a good analogy and why a good lawyer is essential to any superyacht project. Not only are we dealing with hugely expensive construction projects and the usual issues associated with them (credit risk, insurance, dispute resolution regimes), superyacht projects also present the following additional issues:

- There are numerous jurisdictions in play, each with their own system of law. A yacht of the scale in our example is probably being built in northern

Europe by a special purpose vehicle incorporated in a third jurisdiction and under a contract governed by English law.

- At the risk of stating the obvious, yachts can move! They are, therefore, subject to international regulation and control, in addition to the local laws of whichever jurisdiction they pass through.

- There are VAT and local tax considerations that tend to be exacerbated if the yacht is commercially chartered in the EU.

However, these issues are well known to the industry and your chosen superyacht lawyer will have a good grasp of them; I could quite easily write a book to explain how they should each be addressed.

What my colleagues and I have always sought to do is gain a firm understanding of some of the related affairs of our clients and set them in the appropriate context, whether that be legal, political or socio-economic. This, in my view, is what separates a great lawyer from a good one and is fundamental to what I consider to be 'best practice'.

Let me make a quick point on one aspect of the law that does not get enough attention in my view: quality standards. It is taken as read that the shipyard will hold itself to the highest possible standards in terms of build quality, engineering and finish. Most of the time, that is true, but the tables tend to be turned when things go wrong. You may be surprised at the lengths to which a shipyard may be prepared to go in arguing that although a particular element of the build is demonstrably below par it is somehow still compliant with the standards set

out in the contract! This risk can be mitigated by ensuring that wording recognised by the law as importing the highest achievable quality standards is included in the build contract at the outset.

The yacht may be the most expensive and high-profile 'passion asset' its owner may ever buy, but it will still be just one among a portfolio that will span many different asset classes held in a number of jurisdictions across the world. Spending time gaining an understanding of the owner's personal circumstances and plans for their future – and those of their family – is essential to delivering best-in-class advice. This can have an impact in all sorts of areas, from the type of tax treatment and reliefs that are available in the operation of the yacht to the ownership structure and chartering arrangements that are most appropriate.

Finally, while a typical yacht owner will be well served with personal tax and financial advisors, a really good superyacht lawyer should have an understanding of the trends and developing legislation in these areas in addition to an appreciation of how socio-economic trends may impact upon UHNWIs.

It is worth remembering that Pierre Moscovici, the EU Commissioner for Economic and Financial Affairs, took direct aim at the yachting industry earlier this year, effectively accusing certain EU member states of being complicit in VAT evasion. An appreciation of the political backdrop, and how to best protect UHNWIs against it, will be how the very best advisors differentiate themselves in the years to come. **AR**

The allure of distant shores

Bert Fowles, vice president of sales and marketing at IGY Marinas, discusses the current superyacht berthing landscape and why beautiful locations are no longer enough for discerning superyacht clients.

AS A FACILITATOR OF THE JOURNEY SUPPORTING THE DESTINATION, THE MARINA TAKES ON A WIDER ROLE TO ALSO SUPPORT THE COMMUNITY AND BENEFIT LOCAL ECONOMIES.



Since 2005, IGY Marina's commitment to creating exceptional global customer experiences has been demonstrated by the strategic expansion of our marina portfolio, now totalling 17 across 10 countries, with more than 3,000 slips under management serving over 8,000 vessels per annum. This calculated and progressive growth approach has highlighted our experience in recognising that yachting is an experiential cycle and it is important to constantly refine operations to deliver outstanding multi-faceted marina destination experiences.

Most marinas are not specifically designed for today's larger vessels. With large vessels spending millions per annum in operating costs, increased vessel inventory and length all support positive economic impacts around the globe. IGY has strategically designed its dockage capability to specifically handle the largest yachts in the world, including vessels over 153m in each of the regions it operates – the United States, the Caribbean, Latin America and the Mediterranean.

Being a luxury marina in a beautiful location is no longer enough – ports must deliver a spectrum of refined amenities to owners and crews seeking to make the most of their downtime.

Whether the decision rests with an owner, captain or crewmember, a marina is chosen to align seamlessly with the destination of choice. A

marina's goal is to enhance the customer experience by creating value that facilitates an array of amenities, services and comfort. Regardless of the remoteness of the location or operating environment, customer expectations demand a consistency of service no different from a vessel's home port.

With the destination a central focus of the customer, IGY prides itself on its global network with state-of-the-art amenities and services that discerning yacht owners expect, such as in-slip fuelling, security and surveillance, provisioning, Wi-Fi, on-site chandlery services, crew facilities and concierge services.

It is estimated that owners spend less than 30 days on board their vessel per annum. These 30 days represent investments in time by the owner that encompass family, friends and colleagues. In comparison, marinas spend years to manage an investment to deliver the best possible experiences for ownership, employees and customers. Return on investment for owners and marinas converge when expectations on both sides are surpassed and replicated across all facets of the organisation.

At IGY, this process is led by our valued employees – who are adept at international problem-solving, have extensive tourism and/or nautical backgrounds, have completed formal training or are Certified Marina Managers (CMM) – offering a wealth

of global experience to each yachting destination.

Yachting extends beyond just an owner's or guest's time on board. Captains and crew are integral drivers of the customer journey, and ensuring their specific needs are met is at the forefront of a marina's plans. Whether creating social activities, career networking opportunities or internationally standardised operating procedures, working in unison with those who never leave the vessel is an integral component of a marina's success.

Arriving is just the beginning ...

Each vessel arriving at a marina represents a journey's end, but also a new and exciting beginning at the latest port of call. As a facilitator of the journey supporting the destination, the marina takes on a wider role to also support the community and benefit local economies. Building on this key understanding, IGY has created full-service plans for each of its destinations that include management, branding, nautical tourism, community outreach, marketing, finance and reporting. All of these are important factors to making the customer experience consistent, value driven, distinctive and memorable.

The allure of new shores awaits, and marinas are an integral part of the nautical journey that connects destinations, economies, people and experiences across the globe. **BF**

Best practice makes perfect
Applying simple principles and taking the correct approach to a new-build project can elevate the customer journey to the benefit of everyone, says Mark Cavendish, Heesen Yachts' director of sales and marketing.

THE OWNERS, ULTIMATELY, MUST GET AS CLOSE TO WHAT THEY WANT AS IS FEASIBLE OR PRACTICABLE – IT'S THEIR PROJECT, AFTER ALL.



How does one define best practice when it comes to new yacht construction from a shipyard's perspective? The answer is, in many ways, fairly straightforward. When it comes to providing owners with the best possible experience, the fundamental goal is to build them the highest-possible quality yacht that exceeds their expectations and which is delivered on time and on budget. At the same time, all of us at Heesen strive to ensure that the construction of a superyacht is also a fun and pleasurable experience for our owners throughout the entire process.

Ensuring that owners enjoy a stress-free construction is something that runs deeper than just the shipyard's process and it actually begins with the brokers. We endeavour to keep brokers well informed on all that we do, from our build-slot availability to all the events and developments that we have at the shipyard. The brokers have good experiences with us, which means they feel confident when they bring their clients to the shipyard.

When clients come to Heesen, they immediately get an impression of what our brand stands for. Clients will see a modern, clean, well-organised and efficient shipyard. It's not an old building, nor is it full of antique or decaying structures. They see a modern, state-of-the-art factory and good building practices that create a really good impression.

Once we get to the negotiation phase and begin to look at a project in greater detail, Heesen is in a particularly fortunate position as almost all of our building disciplines are completed in house. This makes a huge difference to the entire engineering and construction process because the shipyard doesn't need to rely on outside contractors – certainly a rare commodity in the industry and one

from which Heesen is very fortunate to benefit. We are able to give advice very quickly on structural issues that may arise, be it the positioning of tenders or other design and construction elements that the client may want to alter, and we can quickly advise on what is (or isn't) achievable. Our in-house engineering capabilities and our management processes in general give clients a great deal of comfort in that we are also not as vulnerable to the risks of outside suppliers as some other shipyards.

Having now built more than 170 yachts, Heesen has a wealth of experience when it comes to ensuring that clients get what they want. We can hold their hands throughout the whole process, from consideration of regulations to design characteristics and the engineering of the yacht. We can also give accurate forecasts on what the yacht's on-water performance will be. All of these small steps will reassure clients that we know what we're doing, which makes a huge difference in the construction process.

Retrospectively, our track record proves that we deliver yachts on time. Of course, with any yacht and most shipyards that you go to, there are always going to be outstanding points or snag lists that need to be addressed after the boat has been delivered. After all, a yacht is a highly complex and intricate engineered structure with multiple systems, and requires exceptional attention to detail in its overall finish. Heesen prides itself on ensuring that these snag points are kept to an absolute minimum at the point of delivery – something that is not always the case in the wider new-build sector.

There are, of course, other elements that require careful management, both in terms of client change orders during the construction and

any minor warranty issues that may arise post-delivery. While our experience (and proven integrity) helps negotiate the potential pitfalls of the former, for the latter our clients are looked after by our warranty department which will deal with any issues promptly and efficiently. We have relationships with yards and service points globally to ensure our clients are covered no matter which side of the Atlantic they are on.

The process and the service that Heesen provides are clean and efficient; we are a Dutch shipyard and a serious operation, so we don't promise anything that we can't deliver. We keep our clients happy by ensuring that the process is transparent, and with excellent communication so they don't suddenly get hit with a piece of paper that demands a huge amount of money and shows a delay on their project. The owners, ultimately, must get as close to what they want as is feasible or practicable – it's their project, after all.

Various aspects of, and changes during, the build may initially appear to be difficult, but there will always be a solution as long as everybody takes the correct approach to the project. New-build best practice is all about handling issues in a friendly, open and collaborative way and providing fast and effective solutions where needed.

For many owners, new-build construction is a learning curve, but we should always strive to make the process as pleasurable and stress-free an experience as possible. These are the factors that can elevate the customer journey, which is not just good for us as a yard – it is also good for the wider market. Happy clients, after all, are far more likely not only to stay in superyachting, but also to introduce their friends to what this magical world has to offer. **MC**

WORLD WEALTH AND LUXURY MARKET ACTIVITY

BY WILLIAM MATHIESON

We evaluate the nuances of the UHNWI demographic, while comparing new-build market output to a number of key luxury market trackers.

The Intelligence section of this report has been divided into two parts, with the intention of firstly setting the context in which to place our industry's potential and then to measure it.

This opening section will analyse the various dynamics of ultra-wealth and apply those to our own market's recent trajectory.

Unsurprisingly, since 2013 when our period of analysis begins, the cumulative worth of the world's top 500 wealthiest individuals has exploded, having risen by 43.7 per cent over that time. If we, albeit crudely, compare this with the growth of the new-build market – the superyacht industry's main productivity tracker – over the same time period [*Editor's note: new-build market capitalisation is hard to quantify accurately due to shipyard confidentiality*], our growth rate is modest by comparison, stand-

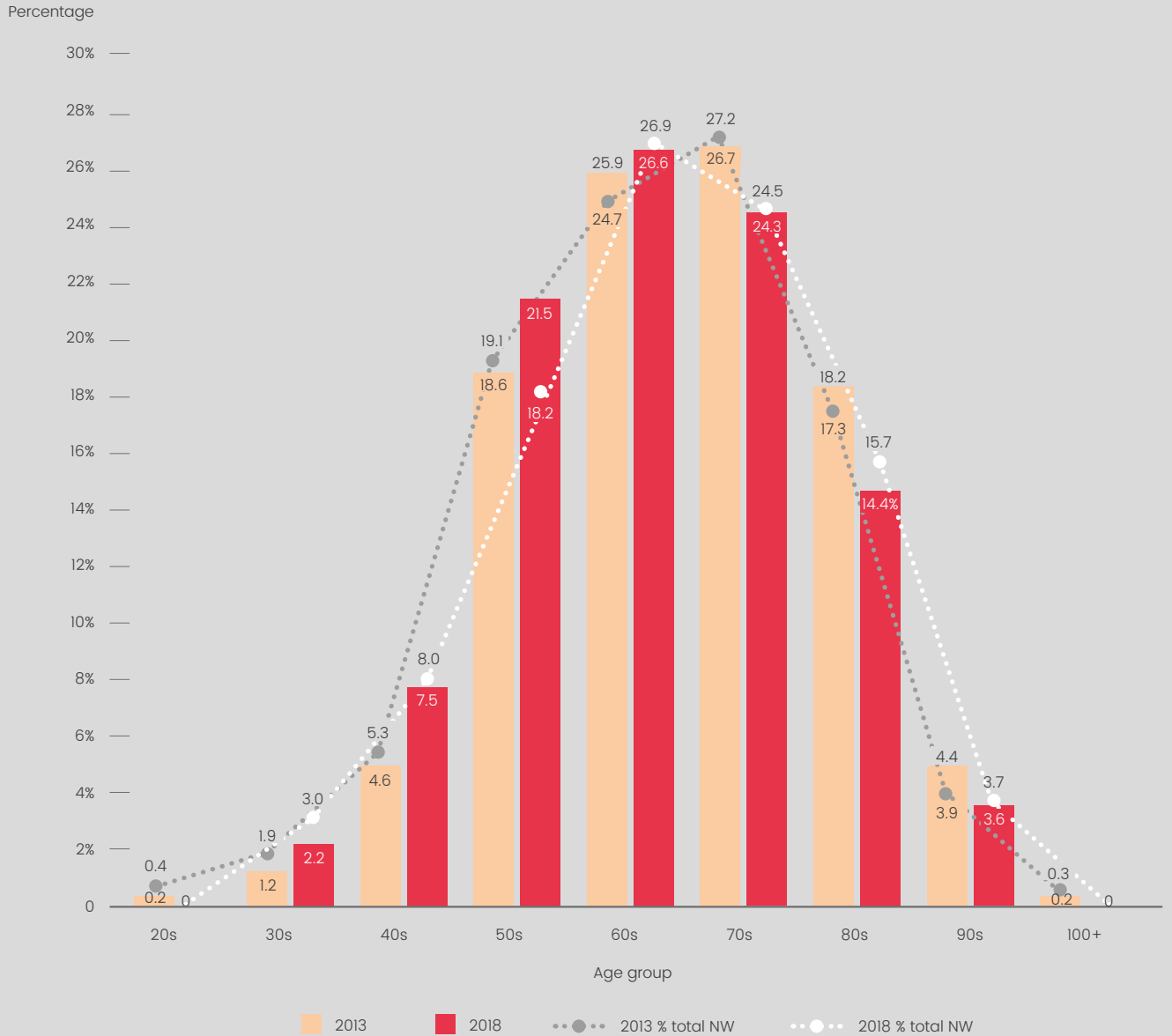
ing at 19.1 per cent. This figure is, of course, still impressive, but it highlights a disparity between the accumulation of wealth among the top 0.1 per cent and investment into the industry.

It could be argued that many of these new UHNWIs have entered our industry via the resale market, which represents a more cautious and risk-averse introduction to superyachting than the commissioning of a new build. Furthermore, when the number of billionaires across the world at the time of writing is compared to the delivered fleet, the ratio stands at 2.4 superyachts per billionaire, which paints a far more favourable picture of the industry's business development efforts (although obviously this does not account for the vast number of second-hand yachts that require a far lower net worth of owner).

Unsurprisingly, the vast majority

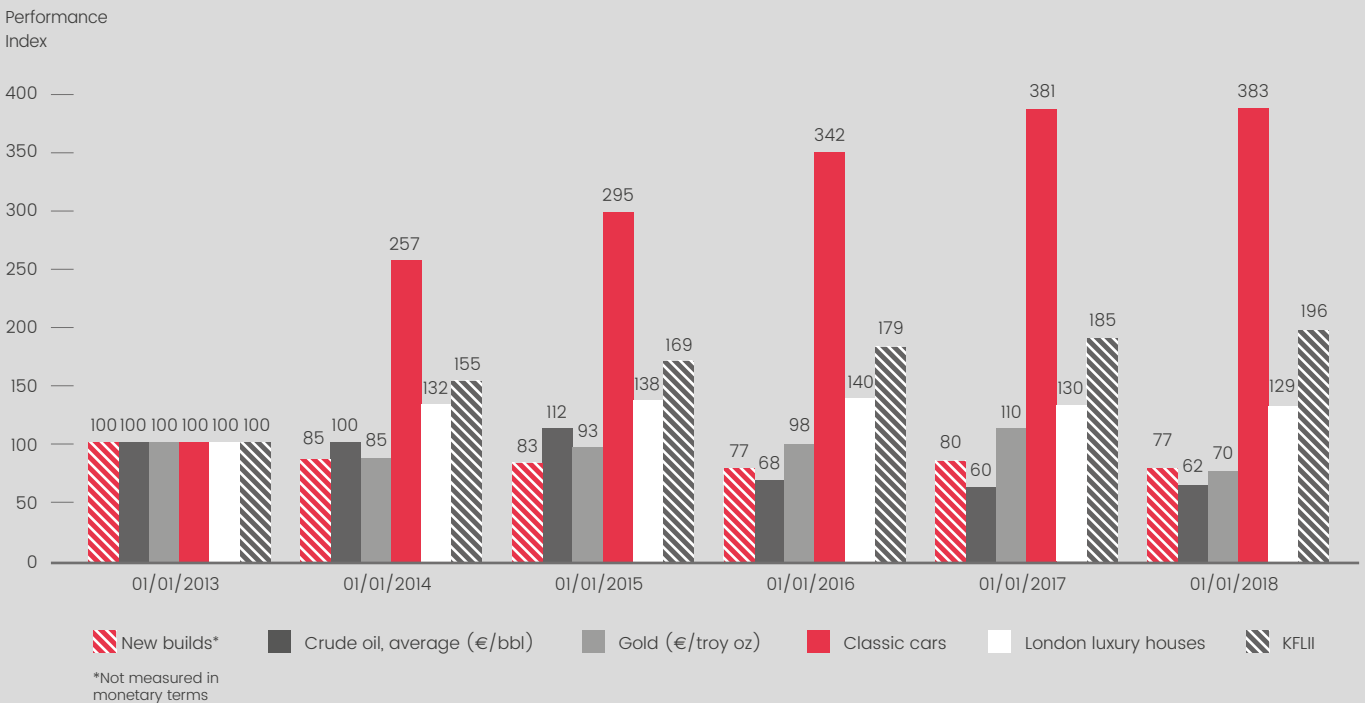
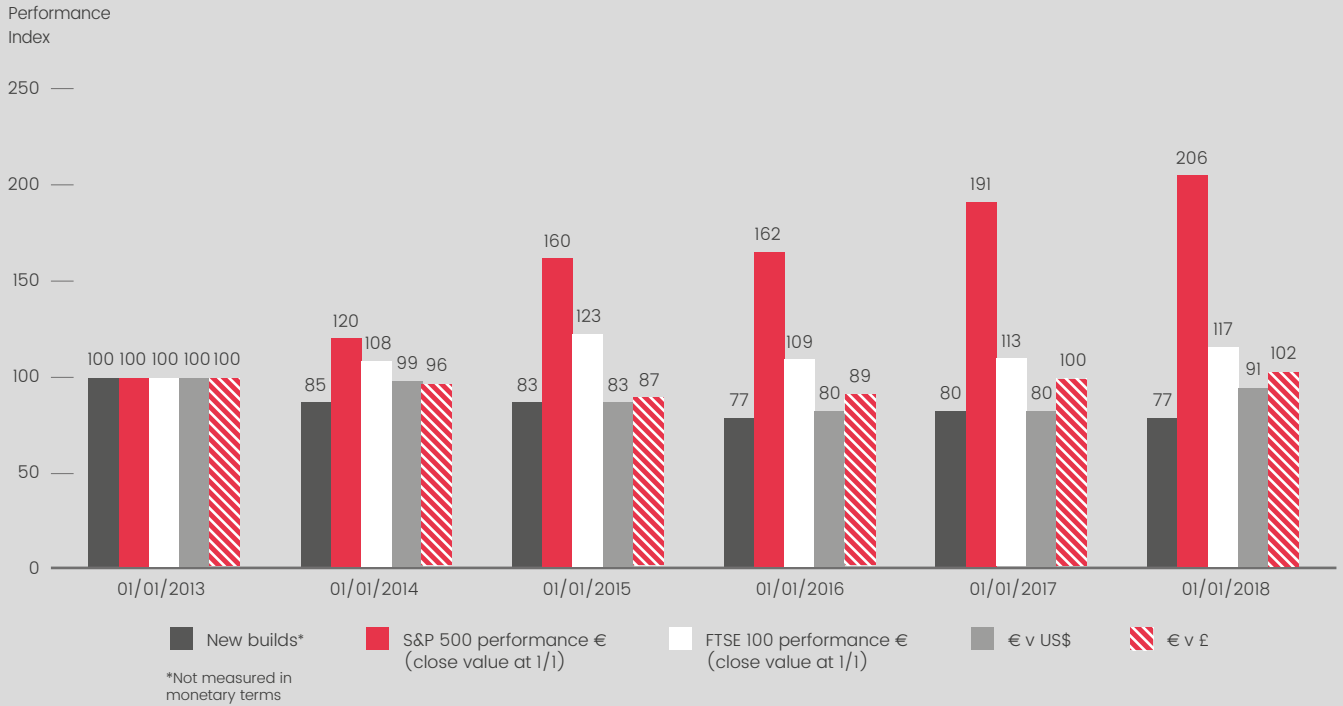
of the top 500 billionaires are aged between 50 and 79, with 72.9 per cent of the global total coming from this bracket at the time of writing, a negligible upward shift from the 72.2 per cent of 2013. However, the cumulative wealth of this bracket has dropped slightly, from 71 per cent to 69.6 per cent. Therefore, the distribution of wealth among different age brackets has remained largely consistent and in line with the yachting industry's own key age demographics. The only real significant change is the explosion in wealth over this period among people in their 40s. The proportion of the top 500 in this age bracket leapt from 4.6 per cent to 7.5 per cent, with eight per cent cumulative value. (Those in their 30s have nearly doubled in number, but this still equates to only 2.2 per cent of the total and three per cent of the market capitalisation.)

Wealth distribution of top 500 UHNIs 2013 vs 2018





Performance of new-build deliveries vs other financial luxury assets (2013-2017)



Clearly, the growth in ultra-wealth among the younger age range requires a shift in the engagement and marketing habits of the industry as it seeks to replicate triggers that reflect their spending habits.

The data confirms what we all knew to be true – that America is the epicentre of the ultra-rich. The US has 26.5 per cent of the world's billionaires in 2018. In second place, with 16.9 per cent, is China – a territory that has proved notoriously enigmatic and anathema to the yachting industry.

Market performance

In our second section, we have opted to use a coefficient to provide some form of market comparison to superyacht new construction. In order to do this, we have partnered with prestigious luxury real-estate consultancy firm Knight Frank to measure the performance of several key asset classes.

In the graph opposite new-build output has its year-on-year performance compared to a number of key ultra-wealth trackers: the S&P 500 and FTSE 100 markets; the value of the industry's two key transactional currencies, the euro and the dollar; the respective values of oil and gold; the two most comparable luxury markets – classic cars and luxury London property; and Knight Frank's proprietary Luxury Investment Index, which is based on the weighted performance of 10 key asset classes (art, wine, watches, coins, jewellery, cars, stamps, coloured diamonds, furniture and Chinese ceramics).

What is immediately striking, and wholly predictable based on the means of measurement, is the sustained

depreciation of the new-build market – the weakest of our asset classes. Unfortunately, the metric we have used here is units, rather than market capitalisation, because of the absence of publicly available figures on the cost of projects. However, by comparing annual year-on-year output with our coefficient, we can still see an obvious downward trend. Therefore, despite the inevitable upward force of inflation, a drop of 23 points over six years suggests a contraction of the overall market value.

Of our points of comparison, which represent each metric's performance-based market capitalisation, the prolonged spike in appreciation of the luxury classic-car market is striking, with a staggering 283 per cent growth in its performance. London property, a very relevant, if albeit isolated, point of reference for the luxury real-estate sector, saw its output increase by a less spectacular 29 per cent up to 1 January 2018.

What is important to acknowledge about both these asset classes is that they are widely viewed as investments. London real estate has long been considered to be the most reliable and risk-averse of investments and, of late, has triggered something of a fashion among UHNWIs for amassing property portfolios. The evolution of the classic-car market into one that constitutes a return on investment has been more recent, but this still sets it apart from the superyacht market, which is accepted as being founded on emotive purchases, with little likelihood of any return.

What perhaps offers up the best mirror to yachting of our classes is the broad-church Luxury Index. This has jumped 96 points over six years, although few of the assets that contribute to it are comparable in value to a quality, new-build superyacht.

The growth in ultra-wealth among the younger age range requires a shift in the engagement and marketing habits of the industry as it seeks to replicate triggers that reflect their spending habits.

The refit market is enjoying something of a purple patch as savvy clients wake up to the cost-efficient proposition of buying second-hand and overhauling an existing vessel.

What should be more concerning for the superyacht new-build market is the burgeoning strength of the US dollar and the depreciation in value of gold. The former can easily be linked to the anecdotal exodus of US clients from their domestic new-build market, which has seen it contract by 41.2 per cent. But when referring back to the aforementioned UHNWI figures, and comparing it to the contraction of the global new-build market, one can be forgiven for asking exactly where this 'exodus' has taken itself. The latter is a conundrum; after all, a trough in the price of gold is an economic axiom for a spike in investments and bullish spending among investors elsewhere, and its use in many industrial processes, from which UHNWIs are made, benefits from a fall in its price. Yet this economic ripple has not been felt by the global yachting market as a whole.

Perhaps the answer lies in our other class – that of crude-oil performance. For more than 100 years, crude oil has literally been the 'fuel' of the global economy and has produced vast sums of wealth for those who have traded in it. Its slump in value (despite a mild recovery of late) has certainly reduced the liquidity of both superyacht clients and regions

traditionally recognised as key territories for the new-build market.

Perhaps the money that has left the new-build market has manifested itself in the resale market. Figures from our previous Brokerage Report, published in September 2018, indicate that the market has rebounded strongly and is demonstrating turnover and value figures not seen in recent years. Indeed, the slowdown of the brokerage market of late has likely catalysed this impressive spike among opportune investors. Similarly, the refit market is enjoying something of a purple patch as savvy clients wake up to the cost-efficient proposition of buying second-hand and overhauling an existing vessel.

It is also necessary to caveat these numbers by highlighting the performance of an elite tier of builders that continue to enjoy stability, success and, in the case of an exclusive few, record order-book numbers that take their current construction cycle beyond 2022.

However, what is clear is that the client pool is growing at a significant rate and evidence suggests this pool is investing its money in other luxury assets. This is why it remains imperative for the superyacht industry to scrutinise its current, and then future, customer journey. **WM**

**New Build Insight, Economic
Impact Studies, Customer
Behaviour Research,
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Supply Chain Strategy,
Operational Budget Insight,
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THE SUPERYACHT MARKET'S POTENTIAL

BY RORY JACKSON

Here, we analyse wealth statistics provided by Knight Frank in relation to the superyacht market.

It is no great secret that, to date, the superyacht market has failed to capitalise on the growing high- and ultra-high-net-worth individual (UHNWI) populations globally. In this report, we analyse data on the millionaire and billionaire populations, provided by Knight Frank and Forbes respectively, and consider the missed and future opportunities for the superyacht market.

In order to effectively analyse global wealth trends and the superyacht market, it is first important to contextualise the argument. Who, for instance, is able to charter a superyacht? In other words, how wealthy must one become before they can impact our market? Alas, there is no simple answer to this question because

the breadth of the charter market, in pricing terms at least, is vast. And entry points can vary wildly.

Therefore, although rather arbitrary in its approach, for the sake of argument let us say that \$5 million would be the appropriate level of wealth to enter the superyacht market. This asset boundary is the absolute minimum threshold and would represent those who service the cheapest inventory in the market, but represent clients nonetheless.

According to Knight Frank, there were 2,535,480 individuals in the world with a net-worth in excess of \$5 million at the close of 2017, 426,950 more than only five years earlier in 2012. This growth represents an increase of 20.2 per cent from 2012 to 2017. Further-

more, Knight Frank predicts that by 2022, this population will have grown to a staggering 3,475,310, a further increase of 37 per cent from 2017 and a 64.8 per cent increase since 2012. Given that a portion of these individuals has the potential to engage with the market in some form, from a one-off 'holiday-of-a-lifetime' week's charter upwards, it becomes clear there is additional market potential throughout the industry.

In reality, only a smattering of HNWI's will opt in to the charter market, with the brokerage market requiring assets of around \$25 million as an entry point. And our industry's primary focus, the new-build market, requires a far greater capital investment still.

Asian nations are becoming increasingly prominent in terms of their UHNWI populations, but will the generation of wealth be enough to appropriate these individuals into the past times enjoyed by other wealthy demographics?

Indeed, it is commonly accepted that anyone who hopes to enter the new-build market should be sitting on a net worth of around \$50 million, although this will naturally vary depending on the individual, where they choose to build their yacht and how they intend to operate it.

When we look at the wealth statistics for the \$50 million-plus individuals, the potential pool of clients for the superyacht new-build market contracts massively in comparison with the charter and brokerage markets. At the close of 2017, there were 129,730 individuals able to buy a superyacht and 5,225 superyachts in the global fleet, suggesting that only four per cent of people who could own superyachts do own superyachts. Now, if one considers the number of people who own multiple superyachts, as well as the number of owners who no longer use their vessels and have listed them on the brokerage market, then the figure for active owners may be reduced to nearer to three per cent.

Between 2016 and 2017, the number of individuals with a net worth of \$50 million-plus globally rose by 9.8 per cent. By contrast, the superyacht fleet grew from 5,087 to 5,225 in the

same year – a growth rate of 2.7 per cent. Of course, there will always be an offset between the growth in the number of UHNWIs and yacht deliveries, and it will be interesting to see if the 2016-17 spike in \$50 million-plus net worths is reflected in a spike in new yacht deliveries over the coming three to five years. It does, however, suggest that the opportunity for the superyacht market is there if the proposition is better communicated to the clients.

It is worth noting that while the US still remains the dominant nation in terms of UHNWIs, the countries in second and third place are Asian nations. The US is not the number-one superyachting nation just because of the number of UHNWIs it boasts; the US has also fostered a yachting culture over a number of centuries that its citizens buy into from the smallest vessels up to the very largest. The same is true of the European demographic of wealthy individuals; sailing, for many of them, was a way of life before they became incredibly rich. However, this is not true of many of the Asian countries that are in the midst of unprecedented UHNWI growth and it is to Asia that many in the superyacht



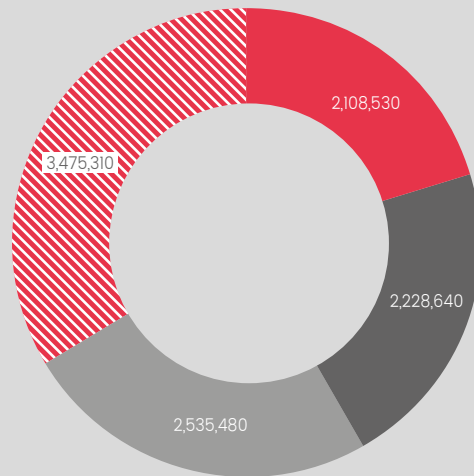
HNW wealth distribution by top 10 countries

No of millionaires (\$5m+)



2012 2016 2017 2022 - projected

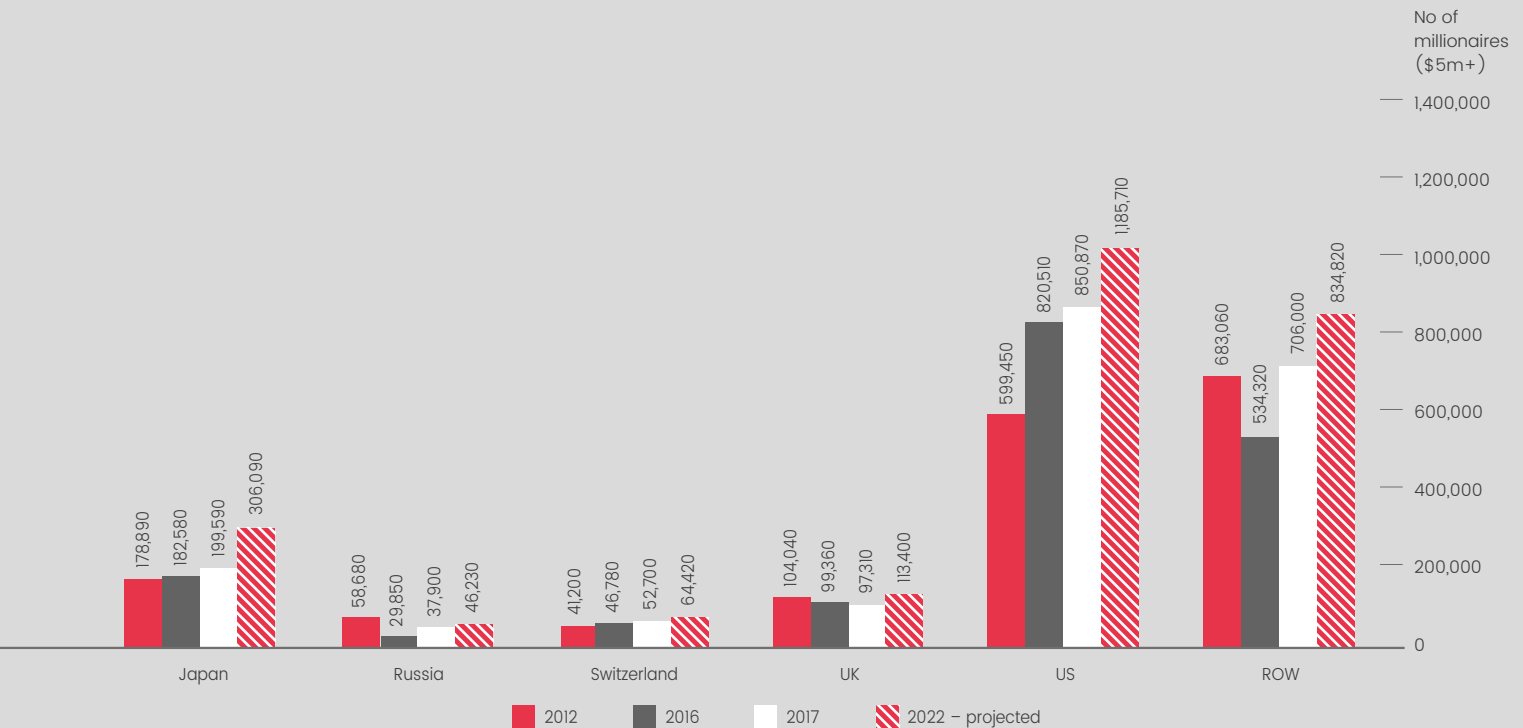
Number of global HNWs



2012 2016 2017 2022 - projected

Source: Knight Frank Wealth-X Report.

HNW wealth distribution by top 10 countries



industry are now looking to as a pool of potential future customers, whether that be for charter, brokerage or new build.

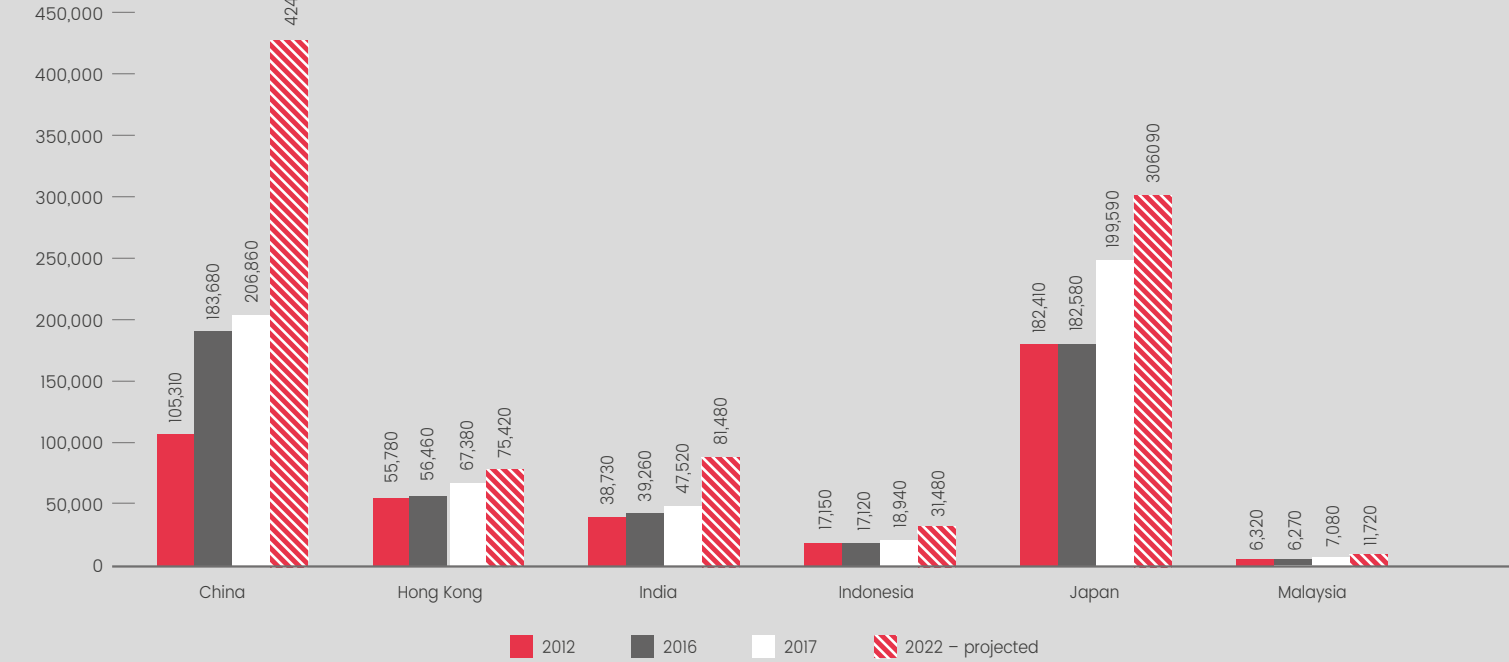
But is this looking to Asia a sound strategy? It cannot be denied that the Asian nations are becoming increasingly prominent in terms of their UHNWI populations, but will the generation of wealth be enough to appropriate these individuals into the past times enjoyed by other wealthy demographics? It is a drum that has been beaten aplenty in recent years, with various commentators outlining that, for many of the wealthiest Asian nations, yachting simply isn't culturally relevant and, therefore, is not high on the list of activities for many Asian UHNWIs.

It is true that there are always going to be exceptions to the rule, but when one considers the impressive growth of UHNWIs within nations that already consider yachting to be a cultural staple, would the sounder strategy not be to focus on those regions? While China and Japan may be predicted to outperform all other nations in terms of UHNWI growth, with Knight Frank predicting that China's \$50 million-plus population will grow by 105.1 per cent and Japan's by 53.4 per cent by 2022, the greatest increase in terms of individuals is still the US, which is predicted to have another 14,470 \$50 million-plus individuals by 2022. So, until cultures are sufficiently homogenised, where does the opportunity really lie? **RJ**



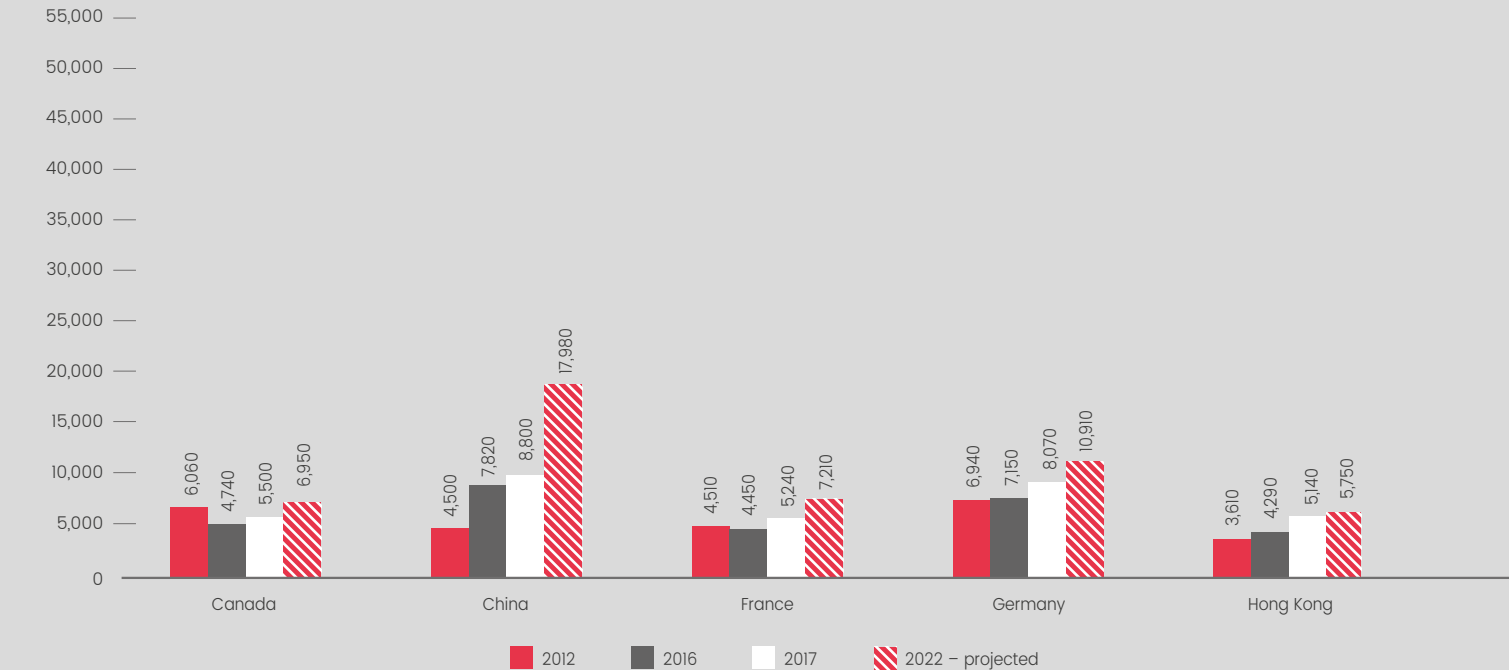
Asia HNW wealth distribution by top 12 countries

No. of millionaires (\$5m+)

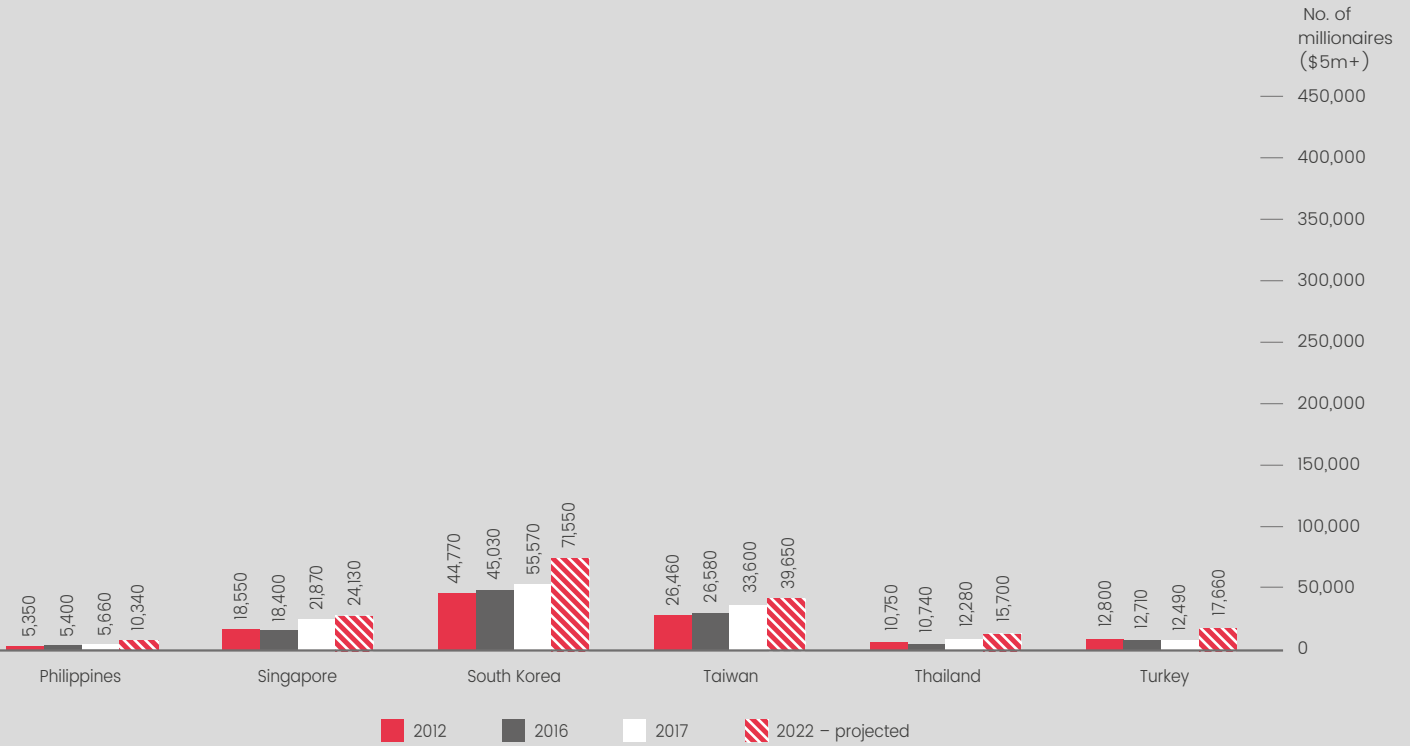


UHNW wealth distribution by top 10 countries

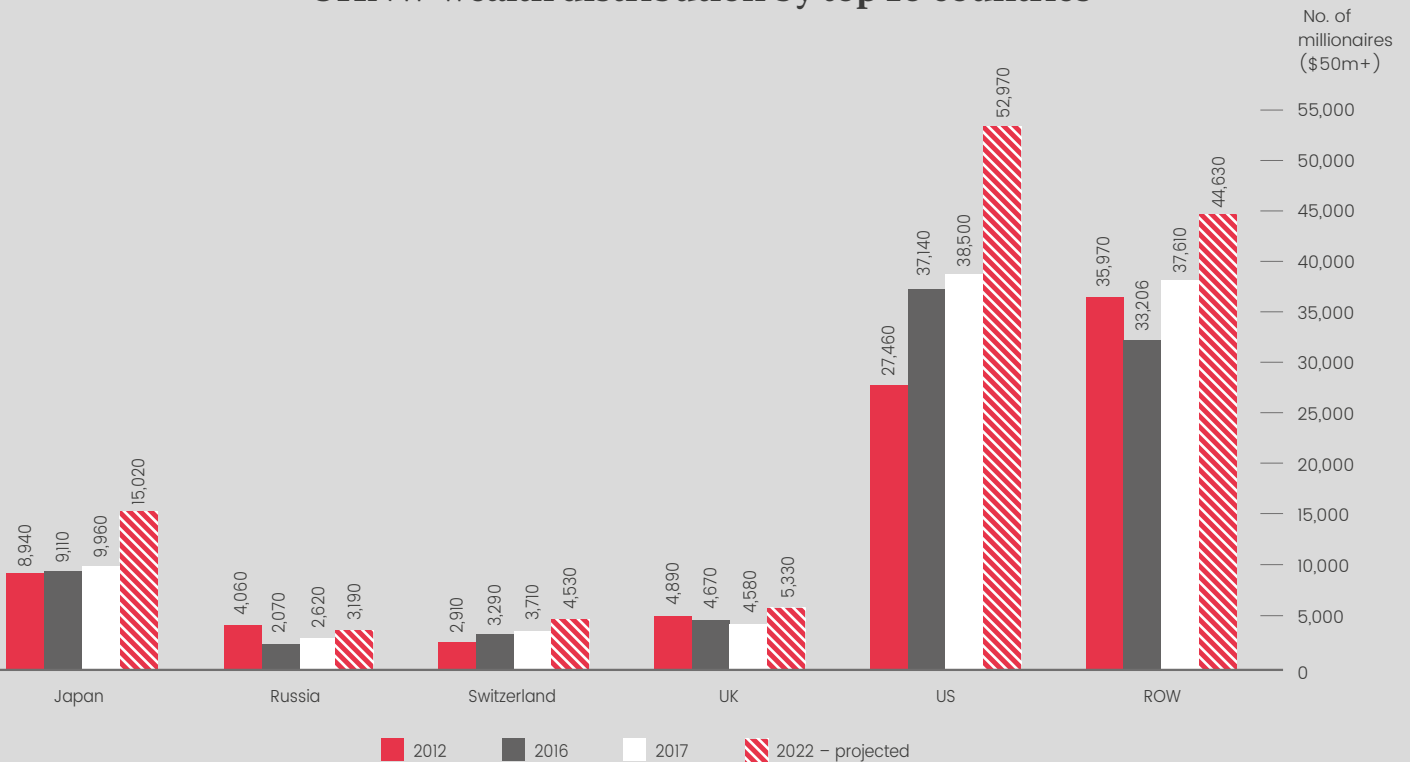
No. of millionaires (\$50m+)



Asia HNW wealth distribution by top 12 countries

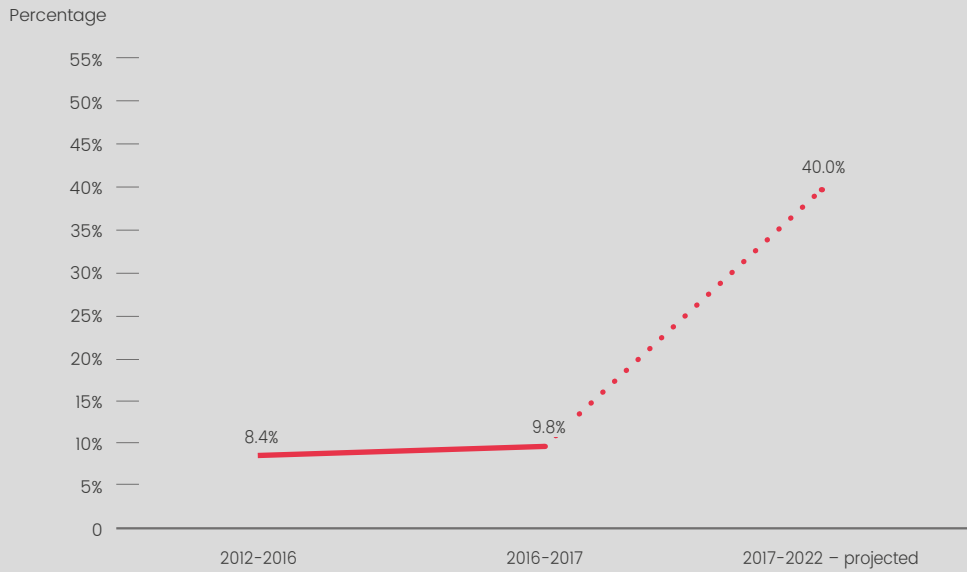


UHNW wealth distribution by top 10 countries

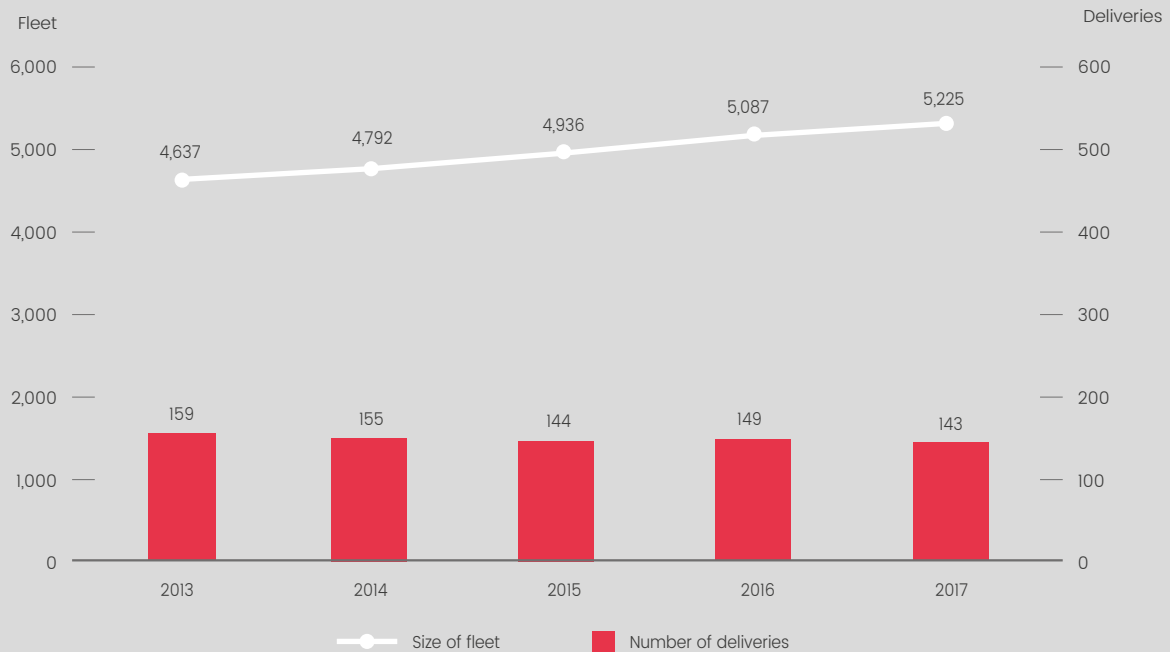




Percentage change of UHNW population



Fleet growth, 2013-2017



SHOOTING FOR THE MOON

Tracking the superyacht market's performance against the growing number of UHNWIs is all very well but it's not necessarily indicative of our collective futures, says Charlotte Thomas.



BY CHARLOTTE THOMAS

It's nice to dream, and to dream large. Our partnership with Knight Frank for this Annual Report has brought illuminating figures to light regarding the state of the global UHNWI population, and with that comes the habitual hand-wringing, soul-searching and self-flagellation from the superyacht sector. Knight Frank's figures state that at the end of 2017, there were 129,730 people with a net worth of \$50 million or more – a bar that we believe is sensible to consider suitable for superyacht ownership. Imagine, we say, if we could tempt them across to this thing we call a superyacht – a conversion rate of even 10 per cent of them would effectively triple the 30m+ fleet. It would be our very own superyacht Utopia – Yachtopia, perhaps.

The same is true when numbers are wheeled out for those in the lower echelons of ultra-wealth, who perhaps fall short of being new-build capable but who could certainly land comfortably in the charter bracket. Wherever you set the boundaries for required wealth for the different aspects of superyachting – charter, brokerage boat,

new construction – there is little doubt that, on paper, the pool of clients is large. But that's all it is – a number on paper representing maximum theoretical potential.

One only has to look at what the young, newly ultra-wealthy are spending their money on to see where our challenges lie. Japanese billionaire entrepreneur Yusaku Maezawa, for example, has literally just bought his way to the moon, laying out an undisclosed sum to secure Elon Musk's Big Falcon Rocket project for him and, randomly, a bunch of artists to loop the lunar loop. But while some are after a different kind of experience, others are looking to yachting. Larry Page – co-founder of Google – bought *Senses*, Jack Setton's proto-explorer yacht, and I was on board a (performance-sailing) superyacht when another young Silicon Valley entrepreneur came aboard to see what all the fuss was about with a view to potentially buying a yacht of his own.

The truth is that no one needs a superyacht. It will probably be the most



There is an ongoing cycle of people leaving yachting, perhaps due to age or downsizing or for myriad other reasons, and the fact that we still have a growing fleet speaks volumes for the fresh blood that is moving in.

expensive asset most people will ever purchase and, as a pure discretionary spend of such significant capital outlay and operational cost, I find it quite surprising that four per cent of all the people who could own a yacht, do. More than the cost, though, is the fact that yachting is something that many might enjoy but which many more won't; as Ron Nugent at Westport said to me recently, if it isn't in someone's genes you have no hope of selling them a yacht. Moreover, there is an ongoing cycle of people leaving yachting, perhaps due to age or downsizing or for myriad other reasons, and the fact that we still have a growing fleet speaks volumes for the fresh blood that is moving in.

The simple fact is that every year the global fleet increases in number, that represents new ownership coming into the market. Even if new deliveries are for repeat owners, their previous yachts are, more likely than not, recycled on the brokerage market and that, ultimately, means new owners buying into the market. Only when the fleet size remains static year-on-year could we say that, effectively, no new owners are

entering our industry, and it's perhaps at that point that we would really start to look at what the growing wealth numbers mean and why superyachting isn't growing with them.

The other facet is that of charter and that remains a far more opaque area of the market. We are hit with a double whammy – charter is often considered the gateway to ownership, the chance to try before you buy, and what's more the next generation is often cited as being more likely to charter than to own. But with so little transparency on who is chartering what – even at the level of 'new' business rather than repeat clients – it is difficult to gauge just how engaged the younger generation of UHNWIs are with yachting.

Given that charter is potentially the fundamental indicator of where we are headed, it perhaps would serve us well as an industry to get together and, while respecting a level of confidentiality, put some solid numbers to the charter market. Our future growth could rely on it – it could be essential if we want to keep the dream alive and shoot for our own figurative moon. **GT**

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