A MAGAZINE WORTH READING

The Superyacht Report

175
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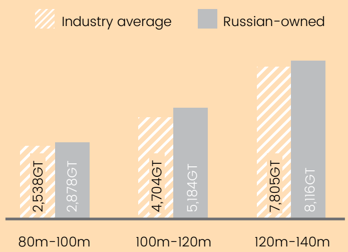
BUSINESS

Burgess CEO, Jonathan Beckett

"There's a lot of money involved, and that's the thing – some brokers don't really think about what is the right thing to do, they are driven by money rather than by the moral code of the industry."

BUYER

Russian Ownership



OPERATIONS

"There is no such thing as 'an accident' anymore."

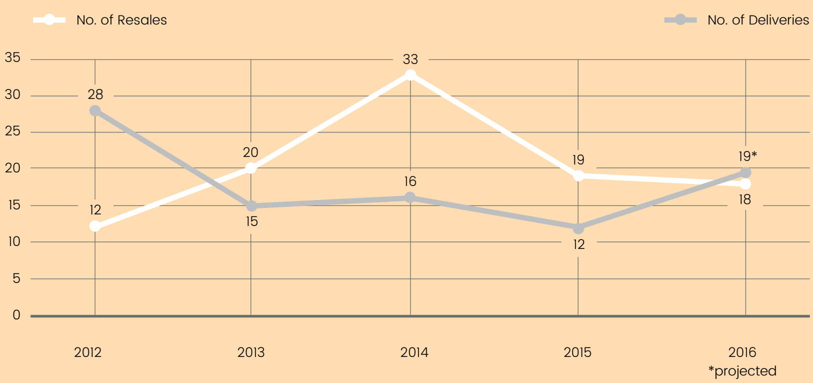
TECHNOLOGY

The best speakers can cost hundreds of thousands of dollars or more per pair. Audio wizards Laurence Dickie and Didier Kwak talk to TSR *about how they combine practical experience, science, intuition and psychoacoustics to create the ultimate listening experiences on board or at home. Sounds good, right?*

FLEET

The Superyacht Sailing Report

Resales v Deliveries
2012-2016



OWNER

Is chartering better than owning a superyacht?

We speak to an owner who has created a business around his fleet of charter vessels, while another charterer explains why he has no interest in moving into ownership.

DESIGN

The inversion of 'form over function'.

All too often, the industry talks about charter as the first step to ownership, but is this transition actually taking place? Rory Jackson looks at the the stepping stones from charterer to owner and how the industry can ease the move to create more superyacht owners.

A report analysing the opportunity in between charter and ownership

The space in between

BY RORY JACKSON

While shipyards, suppliers, agents, managers and every other faction of the industry have begun to focus on lifecycle management and the retention of clientele, we have failed to create access to – and exit strategies from – the marketplace. While the charter market thrives as a result of owners looking to mitigate costs – many having failed to appreciate the real cost of ownership from the outset – it fails to be the 'ultimate route to ownership' that many claim it to be. How, then, can we bridge the gap between charter and ownership and lessen the headaches of the latter, as well as create greater access for the former?

What the successes and popularity of the charter market show is that there is a large, affluent client base already engaged in superyachting as a pastime. However, the stagnant growth of the new-build sector indicates that we have failed to convert these charter clients into owners. When asked how many clients take the step up from charter to ownership in the 30m-plus market, Simon Goldsworthy, sales broker at Camper & Nicholsons, muses, "It's very hard to say, but if it was more than one in 50 I would be surprised." Cynics among us might not be surprised if the figure proved to be less than one in 50.

"For us, the Mediterranean charter season went quite well, possibly not as well as last year, but no far off," begins Molly Browne, charter broker at Camper & Nicholsons. "There were lots of early bookings this year, which is great for us because I think it finally shows that clients learnt a lesson from last year that they were missing out on the top-quality boats."

Beyond a good season for yachting in the Mediterranean, the most notable nugget of information is the shortage of top-quality yachts. It is not news to anyone that the charter market is short on the very highest pedigree of yachts delivered within the past five years, for the simple reason that those who own these vessels are content to enjoy them without sharing; as such, competition for them on the charter market is high.

So why has no one capitalised on the shortage of pedigree yachts in the most desirable size ranges, especially in light of the changing ways in which UHNWIs choose to experience luxury?

It would be remiss to claim that chartering, as a business model, was defunct. Indeed, there have been examples, such as Liveras Yachts, where a specially designed yacht and an aggressive charter programme can pay dividends. Yet it is a model that few have chosen to follow. Even if more businesses did decide to follow this model, it would do little to fill the supply-and-demand void; rather it would create one, or many, more successful businesses. The market would require fleets of pedigree vessels to meet demand, and few who have the knowledge or inclination to deliver them have the capital to pull off such a feat; those who do have the capital are already operating successful businesses in other sectors. So why risk it?

Because of the lack of pedigree yachts available to charter, along with a passion

Adrian Zecha
Founder of Amanresorts and co-founder of Regent International Hotels, Adrian Zecha is the first hotelier to bring his expertise of the service industry to the superyacht market. His philosophy has always been to create elegant, boutique accommodations that combine style and service, resulting in some the world's most highly acclaimed luxury destinations.

Stephen White
Experience as a chief officer on board a 70m motoryacht, captain on board a 58m, a property development business, a career in yacht management and forays into brokerage have provided White with a holistic view of the superyacht industry, from where he has assessed the technological and aspirational changes that he believes the market requires.

for the yachting experience, some would-be-owners might consider the step up to ownership. But for others, the financial leap between chartering and ownership is just too large. Goldsworthy amusingly points out that the most effective route to ownership is to be an owner already. "That may sound contradictory," he says, "but there are plenty of clients who start at 15m and just keeping moving through the ranges as their wealth increases, tastes change and their horizons broaden." That said, this still leaves a large pool of untapped potential.

Besides the issues of supply and demand, the superyacht charter market is not without its other hiccups. Hulls, for the most part, are priced on their length, age and the pedigree of their build. In other words, what is essentially a service industry is priced almost entirely on the strength of its hardware. No matter who you talk to, be they a charter broker, an owner or a charterer, most would agree that it is not the hull that dictates the quality of a trip, it's the quality of the crew and the experience. The difference between a 50m superyacht and a 55m superyacht is nominal; the difference between an active, polite and responsive crew and a lazy, rude and unresponsive crew is gargantuan.

"It is a problem of institutionalisation," starts Adrian Zecha, founder and former owner of Aman Resorts and co-founder of the Mahā Yacht Club (MYC), an innovative membership club intending to bridge the gap between charter and ownership. "In the hotel industry people make a career out of service. In the yachting industry, do people study it and make it their lifetime work?" For the most part, beyond senior-level crew, the simple answer is no. "Are they doing it because they enjoy doing it or is it a job for a couple of years before they get out of there?" This dearth of quality service professionals has been, and will continue to be, a limiting factor in an industry so reliant on word of mouth.

Zecha attributes the success of Aman Resorts to a simple principle – lifestyle service. "When you rent a villa, you basically depend on the estate agent who rented you the property to provide any necessary extras. The same can be said of charters, but that is not our business model as there is no consistency in the level of service. In the hotel business, what we did was put villas next to a hotel and provide a suitable level of service. Why? Because the hotel is a service machine and it provides professionality time and time again.

"The management and maintenance of the hardware is not the problem in the superyacht industry, it is the software," continues Zecha. "The only way to rectify this is if you create a dedicated crew across a fleet, who actually enjoy, and want to be part of, the industry." As with Aman Resorts, Zecha plans to source Mahā's crew from Asia, with training standards set by Jonathan Breene, co-founder of MYC, founder of the Setai Group and Zecha's past hotelier partner.

"The seasons in Asia do not match with the seasons of the various superyachting hubs," explains Zecha. "For exemple, hotels in a destination such as Bali will supply the crew for the yachts during summer in the Mediterranean." By hiring individuals who have already committed themselves to a life's work in the service industry, Zecha, Breene and Stephen White, MYC's CEO, believe they can avoid issues of crewing and drastically improve the servicing element of superyachting, thereby marrying the worlds of maritime and hotelier expertise.

White explains that beyond servicing, the swnd intrinsic problem with the superyacht industry is the price of ownership. "As well as creating a platform for those who are frustrated with the charter market, we are looking to remove the cost of ownership and take the headache away."

MYC hopes to provide a service that exceeds the unknown qualitative standards of the charter market, avoids pricing by hull and eases the burden of ownership by removing the need for members to engage in the day-to-day running of the yacht, as well as providing a platform that is cheaper than both. MYC's one-time fee covers all management and maintenance expenditures for the full 10-year period; the only additional cost is for items consumed over the course of a stay on board. Per week, the MYC model is around half the price of chartering a similar vessel and significantly cheaper than the €50 million price tag of owning and running the same vessel privately for 10 years.

As well as creating a platform for those that are frustrated with the charter market, we are looking to remove the cost of ownership and take the headache away.

Left: Stephen White, founder and CEO, Mahā Yacht Club.

Both Zecha and White are clear in their message, "this is not shared ownership; this is a unique lifestyle investment, this is a club", with a refined focus on software in addition to the hardware on which this industry places so much stock. The Mahā team believes they have found a platform that cures many of the ailments found in both the charter and ownership markets, as well as meeting the demands of many of today's time-poor, capital-rich UHNWIs who can think of nothing worse than acquiring an asset that deprives them of both.

The 'ownership headache' to which White refers is well documented and forms the cornerstone of the issues found at the other end of the market, and completes this chaotic picture. (See page 32 for MYC model.)

To simplify the issues associated with ownership, we can break it down into four central pillars: firstly, the cost of privately owning a yacht and financing it in full with a limited amount of time spent on board; secondly, you consider your yacht to be your escape from the trials and tribulations of the business world, only to discover that issues of maintenance, manning and operation require your constant attention and approval; thirdly, for a busy person, retaining crew is nigh on impossible if the yacht remains inactive for most of the year; finally, all of the above drives owners to put their yachts on a saturated resale market.

Naturally, there are owners who feel neither the pressure of their purse strings, nor the weight of time, but they are by no means in the majority. There are, however, those who still wish to be involved in the ownership process, albeit in a more efficient manner. "It becomes incredibly frustrating when you are sitting at home, not using your yacht and you continue to receive large invoices," starts Matty Zadnikar, managing director of SeaNet Europe and former owner of a number of superyachts. "The idea of simply burning money makes no sense to me."

Zadnikar, whose own concerns with ownership formed the basis of the aforementioned pillars, took it upon himself, following the sale of his previous business, to explore alternative routes to ownership and so acquired a 50 per cent share in the successful US-based fractional ownership company SeaNet, intent on creating a European equivalent. "I had the capital to pre-invest in two or three yachts, so I decided to create a fractional ownership model, born out of my own frustrations," he says.

"This is not a means for me to finance pleasure. Most owners will admit that the moment you buy your yacht, you consider that money to be gone. However, this is a way through which owners can reduce frustrating waste, increase access and pay for costs equivalent to usage. I decided to take away all the hassle, take away many of the costs and translate it into 25 per cent, 33 per cent or 50 per cent ownership." (See page 33 for financial breakdown.) In addition to a 28m Benetti Delfino, Zadnikar currently has a 35m Benetti Mediterraneo in build.

By his own admission, Zadnikar actively dissuades owners from engaging in 50 per cent ownership of a vessel and 75 per cent simply is not an option within his model. "If an owner wants 50 per cent, I would suggest to him that he takes 25 per cent shares in two different yachts, in two different locations, thereby negating transport costs and increasing variety and access."

Fractional ownership schemes have been much maligned in the past, and many of those who have attempted to make it work are no longer in business; how can such personal object suit various investors? How do you manage the time between the owners when everyone wants the same weeks? These are valid questions and, quite rightly, the model does not suit everyone. But since when did failure necessitate the invalidity of an idea, and since when did superyachting become a one-size-fits-all industry? With a business plan that clearly defines operational conflicts and manages them contractually, there is no reason why fractional ownership can't work for certain individuals.

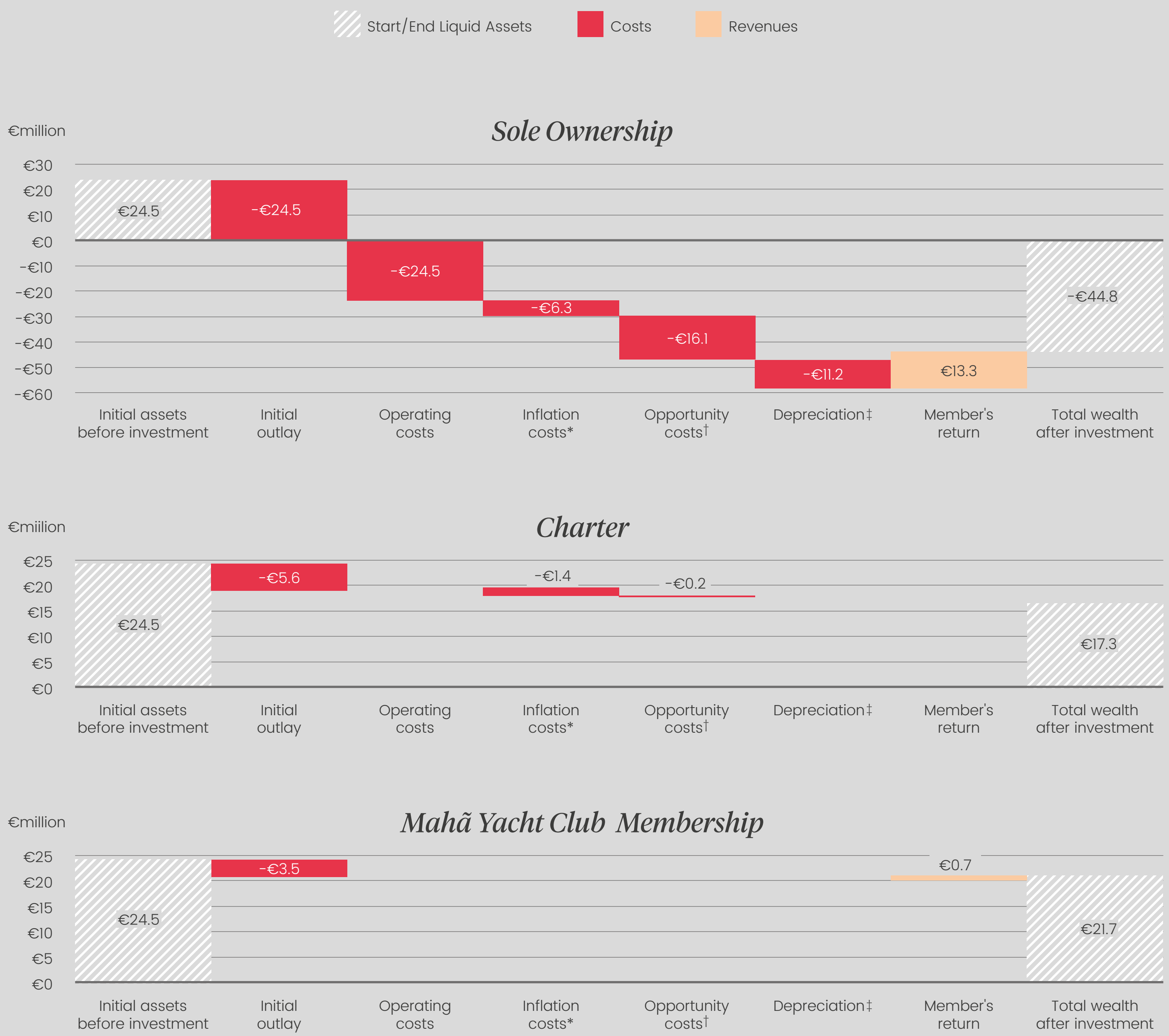
The reality is that many owners simply do not have enough time to use their yacht to its full potential. As a result, they end up chartering it, at which point competition for time on board becomes as contested, if not more so, than if they had only to reach an amicable agreement with three other fractional owners with whom they have a rapport and a contract.

"Each owner registers a company in Malta – the vessels are also Maltese-flagged – and through these companies they own 25, 33 or 50 per cent of the vessel," explains Zadnikar. "Those companies come together and make a contract and a management contract with our company (SeaNet Management). The key is to bring together people with different owning attitudes. We may have couples with children in different countries, so the holidays don't align; we may have one highly flexible individual and we may have another owner with a rigid schedule."

Having started SeaNet Europe in the summer of 2015, Zadnikar has already sold 75 per cent of the Delfino, including 25 per cent to himself with an additional 25 per cent option, as well as 25 per cent of the Mediterraneo and letter of intent signed. "After one year in the business and one and a half yachts sold, I am a very happy guy," he says.

Matty Zadnikar (above)
After successfully founding, developing and eventually selling his own company, Z-Safety Services, Zadnikar enjoyed a year-long sabbatical on board his own superyacht. Once his sabbatical had concluded, Zadnikar turned his entrepreneurial spirit towards his passion for yachting, resulting in the 50 per cent acquisition of SeaNet, the US-based fractional ownership scheme, and opened SeaNet Europe.

Buyer investment change over 10 years: Mahã Yacht Club v sole ownership and charter



Assumptions:
* Inflation estimated at +5%/annum on charter fee/ operations costs.
† Opportunity cost at 5% per annum on outgoing sums over the membership cost. Compounded over 10 years.
‡ Depreciation – value after depreciation on asset at 5% per annum for 5 years and 10% depreciation for second 5 years.

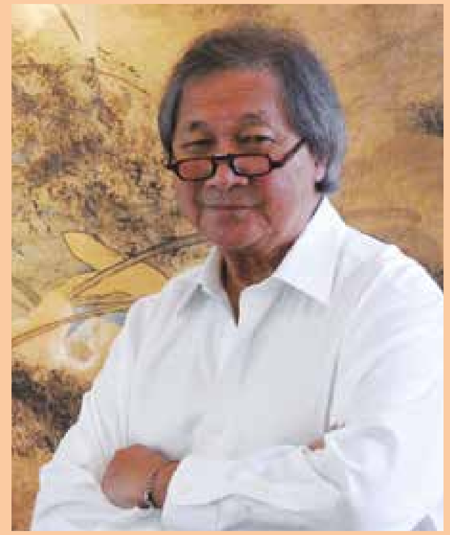
Estimations:
1. Charter cost estimated from average of Dutch built 40m charter rates.
2. Ownership operational cost estimated at 10% with a compound 5% yearly inflation.
3. Asset value realisation at term end calculated on above depreciation rates.

Total expenditure on ownership levels

This chart shows the financial summary of SeaNet's 25, 33 and 50 per cent ownership schemes, when applied to a 28.3 m Benetti Delfino, versus the cost of sole ownership on a vessel of the same type.

* VAT paid on all † Residual value based on total depreciation in five years of 45%

The management and maintenance of the hardware is not the problem with the superyacht industry, it is the software.



Right: Adrian Zecha, founder and chairman, Mahā Yacht Club.

However, arguably the most important element of both the Mahā Yacht Club and SeaNet's fractional ownership, beyond widening the pool of potential investors, is that they both provide members/owners with an exit strategy.

"We have a mechanism in place to protect the minority shareholder," says Zadnikar. "If, for example, an owner encounters business troubles after the first year, they can offer their share to one of the other owners on a first-refusal basis. Failing that, their share goes on the market. If after three years – all the time paying a fraction of the price it would cost to have a private yacht on the resale market – you cannot sell it to one of the owners and it does not get sold on the market, then the whole vessel goes to market."

Based on the speed at which Zadnikar has been able to sell the fractional shares of his vessels, the hope is that braving the resale market is an avoidable problem. After the first three years of ownership, the mechanism repeats every two years.

As with all the other elements of MYC, its exit strategy exudes a simplicity that seems determined to keep the model apart from the whims and wishes of the traditional superyachting marketplace.

"The exit strategy is very simple; we will undertake the sale of the remaining value of a membership for a small fee," explains White. "The member cannot sell on the open market, but if they have friends they want to sell to then we are happy to handle the paperwork. We will set the price in accordance with the value of the days that are left."

The market may be chaotic, but it is not altogether broken. For many, chartering is the right option, with the right price point and the right amount of access; for others with the necessary time and capital, nothing could possibly be better than private ownership. However people's finances and tastes do not follow a uniform pattern. Darwinism reigns as true in business as it does in another worldly sphere, and as such we need to adapt our models to fit all manner of environments.

Every UHNWI who sets foot on a yacht is a potential new-build contract down the line. Who cares how we get them on the yacht? Brokers may not like commission-less business models, but when those engaged in fractional ownership or membership decide they want to buy a yacht of their own, the whole industry benefits. The truth of this can be seen in Feadship's involvement with MYC. With two 36m Feadships already in production for MYC – and four more in the pipeline – due to be delivered in time for the 2019 Mediterranean season, Feadship has kept its order book ticking over and introduced its product to 60 potential owners. The same can be said of SeaNet and its Benettis. We are not in a market that lacks opportunity; we are in a market that currently lacks flexibility. RJ