

SEVEN REASONS {WHY NOW} is a Great Time to Buy a Yacht

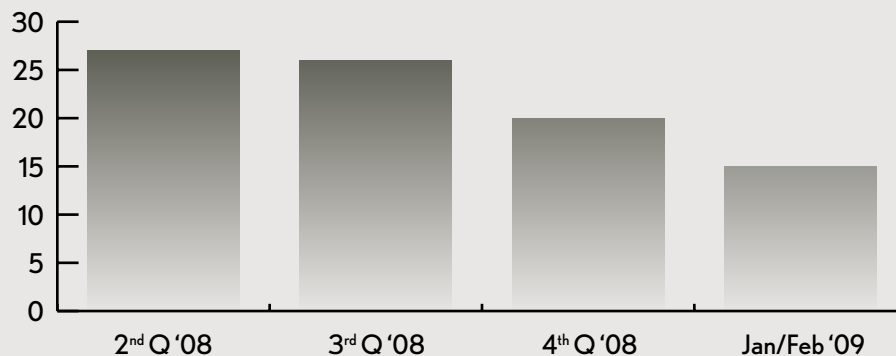
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Over-reaching and over spending in order to achieve material satisfaction has always been a risky combination. But for those who have significant liquidity in substantial portfolios, right now might be an ideal time to consider buying a yacht. Volatility in traditional asset growth environments has been wild, unpredictable and profoundly negative lately. With the DOW having plunged as far as 44 percent off its previous high, the S&P as much as 48 percent, and growth sliding backwards in nearly every market sector, many who have managed to retain a healthy net worth are realizing – in the current environment of severely sloping, concave economic growth – that now is the time to finally step back and enjoy the fruits of their labor.

A yacht is not merely a status symbol, it is a quality of life enhancement that is viably attained and sustained only by those who have nurtured financial assets indicative of long term fiscal discipline and achievement. To be perfectly clear, one should never invent affluence to buy a yacht – a yacht is an asset to which you allocate genuine wealth. That being said, for those in a position to purchase a yacht, it is not unlike a specialized commodity. A yacht is not only symbolic of success; it can tangibly improve quality of life, and because of this, yachts will preserve a fixed (and often superlative) value in relation to the variable economy because there will always be a devoted demand for them. *Boat International USA* recently assembled a panel of yachting professionals with fairly pedigreed economic perspectives; their considerations follow:

RESALE MARKET

Sales Over 100 Feet
Completed in Last Three
Quarters and a Promising First
Two Months of 2009



1 VOLATILITY IN CAPITAL MARKETS

With capital markets currently making chaotic (often irrational) swings, seasoned investors have switched their economic strategy from “maximization of returns” to “capital preservation,” which has a number of investors moving substantial sums of money out of the capital markets. Such high net worth investors nervously watch liquid assets in accounts that are only FDIC protected for \$250,000 while searching for safe havens in bonds, gold and other commodities. Wes Sanford with Northrop and Johnson says, “The disadvantage with more traditional hard assets as they compare to a yacht is that you can’t take your family on vacation aboard your gold certificates and you cannot explore the Galapagos Islands from your bonds.”

2 THE FAVORABLE COST OF MONEY

Right now, the traditionally safe havens of the bond market and money market are offering very weak returns. The beneficial consequence of such flat returns for investors is lower interest rates for buyers. For those in a reasonable position to make asset acquisitions in the current economy, the cost of money is at a record low. This combination of low returns and low interest rates makes it easier to justify allocating funds to material investments that have only a comparatively modest risk for loss and high yields in personal satisfaction.

According to Lisa Verbit, the National Marine Executive and Senior Vice President at US Trust/Bank of America's division of Private Wealth Management, "We are wide open for credit. Not only is there plenty of credit available, but rates are extremely attractive for qualified buyers." In early January, Verbit indicated that a 30-day LIBOR rate was a stunning quarter point and prime loans were three and a quarter. "Buyers are definitely taking advantage of these rates. In the first few weeks of January, US Trust closed on \$60M and we're expecting to close on another \$140M by the end of February. Frank Brand, CEO of Fraser Yachts, adds, "The criteria for borrowing right now, particularly in the luxury market, is very strict, and only well-qualified buyers with substantial securities are going to be eligible for loans. But for buyers with good guarantees, this is arguably the best time to be buying a yacht."

3 YACHT PRICES ARE THE MOST APPEALING THEY HAVE BEEN IN A LONG TIME

Before lending and spending habits came into check, yacht prices were soaring. Yacht builders were working at maximum capacity and buyers who were unwilling to wait for new construction were paying a premium for immediate gratification.

According to Rob Newton with Fraser Yachts, as the economy began to cool leading up to the last quarter of '08, yacht prices had appeared to plateau. However, when the financial crisis hit what we can only hope was its apex in late 2008 – freezing up liquidity in nearly every sector of the global economy – yacht prices finally started to flex backwards. Newton points out that because a number of yacht owners are suffering from a lack of liquidity, they are seeking to liquidate assets, which he says, "has made this the best buyers' market I have ever seen."

"I won't mention names," says Newton, "but I know an owner who had originally built his yacht for \$22M. He had it on the market last summer for \$43M, because at the time, he felt like that was a price the market would bear. However the yacht recently sold for \$21M... And at the same time, that just goes to show that with all the volatility in the market right now, [the yacht] held its value much better than any assets that may have been invested in the S&P."

Brand agrees. "The great prices reflected by the current yacht market are not so much a sign of a market in decline, rather a correction in an overheated market. Underlying asset value is still strong, but with the current inventory, buyers are able to get high quality, pedigreed yachts at a very fair price."

Kevin Merrigan, President of Northrop and Johnson adds, "Yacht prices had risen dramatically – and perhaps inappropriately – over the past few years. I think we are seeing a correction now, and it is certainly a buyers' market... There are more yachts available now than have been in years, and sellers are much more realistic."

4 ENTICING INCENTIVES FOR NEW CONSTRUCTION

Sanford says, "To be competitive with lower prices within the pre-owned market, many builders are offering discounts and incentives that have never been seen before. Production lines need to be fed, so as with current car sales, yacht dealers are now aggressively pursuing buyers. Some examples include doubling the initial warranty, doubling the hull warranty, large fuel credits, free upgrades, and aggressive trade-in values."

In addition, even some of the premiere shipyards have buyers looking to get out of existing contracts. Brand observes that this makes for "good opportunities to pick up new build contracts for close-in delivery and an 'availability premium' is not really an issue any longer." Newton notes that its highest point, "the price for construction of a [high quality 197ft] yacht was between 75 and 90 million euros, but today it is possible to get that boat for about 60 million euros." Brand adds, "Right now, the exchange rates for US buyers of EU boats are at their most favorable level in some time."

5 APPEALING OWNERSHIP COSTS

Many of the costs associated with yacht ownership have fallen dramatically as well. The price of diesel has dropped nearly in half from last year. "Who would have thought a year ago that we would see oil prices below \$50 and nearing \$40 a barrel?" says Sanford. Fuel may be a minor expense in the grand scheme of yacht ownership, but low fuel prices are a good indicator of the economy's ability to rally. As many yacht owners cut back on the use of their yacht and its expenses, shipyards are becoming competitive and those costs are dropping too. A sudden surplus in crew is bringing down those costs as well. Even rates for dockage have become more competitive in the current economy.

6 THE ABILITY TO HIRE EXCEPTIONAL CREW

From 2005 to late 2008, a soaring demand for crew not only drove up the salary demands, but many yachtsmen were frustrated with their inability to find constant and qualified crew despite the generous employment packages. Some yachtsmen – fed up with the challenges of retaining good crew – chose to get out of yachting for that reason. However, that dichotomy has changed significantly in the last six months. Brand says, "Right now there are a lot of really good crew looking for work, and a qualified crew will always improve the yachting experience."

7 THE QUALITY OF LIFE

When economic times are good and money can be allocated in ways that yield a ten percent return or more, ardent investors struggle with the idea of putting money into acquisitions that will incur an expense. However, looking at a financial situation where returns are flat with an uncertain risk potential, it is much easier to consider allocating money to endeavors that may not bring financial gain, but will have tangible asset value and intangible rewards for the buyer's quality of life. "If you are not going to get a financial return on your investment," says Sanford, "you may as well get a personal return. In these days of failed banks and Ponzi schemes, a yacht almost seems practical."

Merrigan says, "Far too often we see people put off the dream of owning a yacht. They wait and wait only to find that they have waited too long and are no longer healthy enough to enjoy it or have some other setback that keeps them from ever making their dream a reality." With the times being so uncertain, it is human nature to focus on family and loved ones, to seek self betterment, and take time to relax. There is perhaps no better way to achieve all three than by retreating to your yacht in a quiet, pristine location. It is a quality of life that defies measurement by any monetary standard. Ask any yachtsman to recall the best day of his or her life, and it will probably have nothing to do with a day that made them financially capable of owning a yacht. Instead, it will most likely involve a selection from the many perfect days spent with family aboard the yacht – where day-to-day troubles were literally a thousand miles away. |

HOW TO BUY IN THIS MARKET

Our experts agree that there are a number of yachts that are on the market right now in order to generate liquidity for the owner. Newton says, "Some of the listings we saw in the last quarter of 2008 and in the first quarter of 2009 were from owners who had a need for short term cash and who were unsure about the future. I think once the new administration makes good on its promise to inject cash back into the economy, we are going to see some of these yachts come off the market and could see a bounce in pricing."

To maximize value in making a yacht purchase, Brand strongly urges buyers to use an experienced yacht broker. A broker is important to help guide you through the benefits, pitfalls and various options that may not otherwise be made clear to you. Sanford adds, "If purchasing a yacht as an investment, quality yachts are easiest to re-sell when the time comes. Other important considerations to maximize purchase power in the current market are: 1) Make a cash offer; 2) Be ready to make an offer and close quickly; 3) Minimize contingency terms."

No one knows for sure what the future really holds for our economy; however Merrigan concisely concludes, "I think any owner getting into yachting today will find it is less expensive than before, more enjoyable than ever and one of the greatest facets of life."