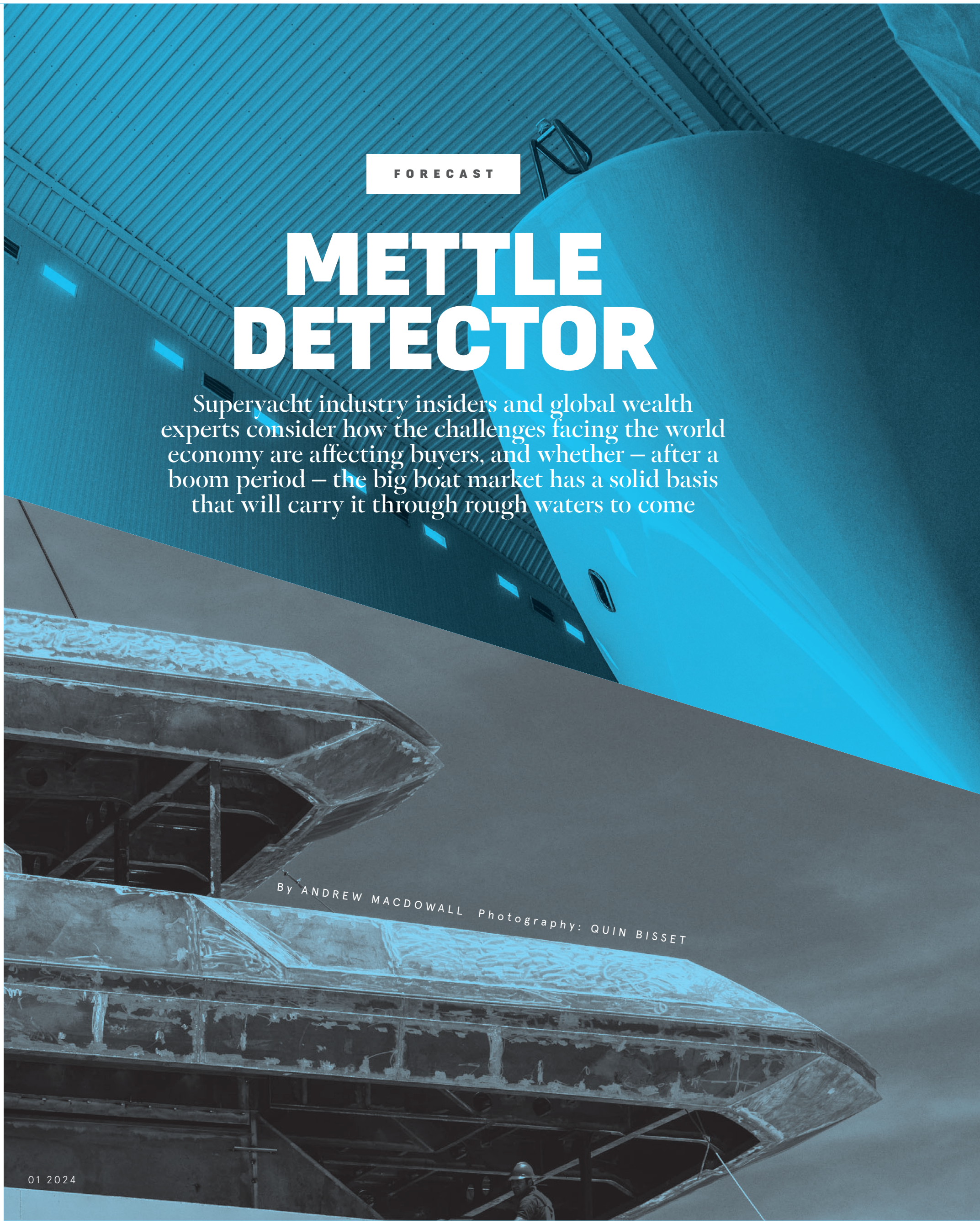


FORECAST

METTLE DETECTOR

Superyacht industry insiders and global wealth experts consider how the challenges facing the world economy are affecting buyers, and whether – after a boom period – the big boat market has a solid basis that will carry it through rough waters to come

By ANDREW MACDOWALL Photography: QUIN BISSET

Stubbornly high inflation and interest rates, an ongoing war in Ukraine with little sign of an end, growing concerns over China's economic health and sluggish performance from leading European markets – it has been another difficult year for the global economy. The International Monetary Fund (IMF) forecasts that growth dropped from 3.5 per cent in 2022 to three per cent in 2023, with inflation only moderating from 6.9 per cent to 5.8 per cent.

Following its strong post-pandemic recovery, the superyacht industry has seen a cooling in this economic context. "The market has certainly slowed down compared to recent years," says Benjamin Bensahel, European head of sales and brokerage at Camper & Nicholsons. "We are seeing more and more yachts that were bought in the past three years coming back onto the market. This is resulting in a lot of price reductions on yachts already listed for sale. We have clearly shifted into a buyers' market."

Inflation and continued supply chain bottlenecks have also had an impact on the yacht-building industry, with builders and brokers weighing up how much of rising costs to pass on to clients. Yet the picture is far from one of doom and gloom. The market is still strong; the bull market of 2021 to 2022 was always unlikely to be sustained. As ever, it is important to bear in mind that superyacht buyers are ultra-high-net-worth individuals (UHNWIs). They are generally more resilient to high interest rates than less affluent households, and more accommodated to seeing significant fluctuations in their net worth. There were 243,000 UHNWIs globally at the end of 2022, down 22,500 from 2021, due largely to falling share prices, according to UBS's *Global Wealth Report 2023*, which defines an UHNWI as having net wealth of more than $50 million (£39.8m). Yet there are four times as many such individuals globally than there were in 2008, and UHNW numbers have grown 60,000 over the past three years alone (growth in 2020 to 2021 more than offset the 2022 drop).

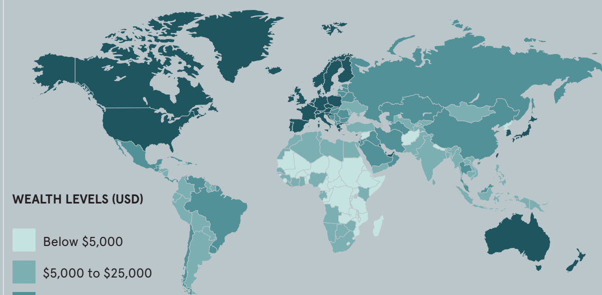
"Demand for yacht ownership remains very strong worldwide despite a reduction in activity compared to the outstanding post-Covid years of 2021 and 2022," says Mark Duncan, director of business development and marketing at Fraser.

Duncan says that the company is seeing "another top-three" year in 2023. At the time of writing, Fraser had 85 yachts for sale, ranging from 24 metres to 90 metres-plus, and it saw 32 sales in the 24 metre and up category in the year to August. Duncan says that the sector as a whole is seeing more demand from experienced buyers for yachts in the 60-metre-plus segment, while there are fewer new buyers in the 24- to 40-metre segment, which is traditionally the "entry-level sector" for superyacht ownership. Fraser itself sold the 89-metre Amels *Here Comes The Sun* in just over 40 days in an in-house deal, and the 75-metre Feadship *Arrow* in just 10 weeks.

A combination of inflation, supply-chain issues and long waiting lists for new builds have seen some newcomers to the market pivot to pre-owned vessels in order to find a yacht that meets their expectations, with or without refits. And some of those waiting for their new-build projects to be completed are also buying smaller pre-owned vessels to use in the interim. But order books at many yards are still looking remarkably healthy.

WORLD WEALTH MAP 2022

Geographical variations in levels of wealth per adult across the globe



WEALTH LEVELS (USD)

- Below $5,000
- $5,000 to $25,000
- $25,000 to $100,000
- Over $100,000

Source: James Davies, Rodrigo Lluberas and Anthony Shorrocks; Global Wealth Databook 2023. Credit Suisse Research Institute

> **"Superyacht sales are down from 2021 but are still robust when compared to levels over the past five years"**

Damen Yachting has sold six of its Amels 60 superyachts to date, with the second, *Entourage*, delivered in early 2023. The Dutch yard marked the technical launch of its first Amels 80 and Amels 120 Full Custom vessels in 2023, catering to demand for larger superyachts.

Taiwanese yard Ocean Alexander notes that its 37-metre Legend and 35-metre Revolution "continue to find remarkable success, with a backlog of sales", while its new 32-metre Explorer (E series) has "found a solid footing". "The insatiable appetite in the years prior has certainly been stabilised, and now we continue to see reliable and more predictable sales trends," says Dan Mundy, head of global operations at Ocean Alexander. "Inflation has certainly impacted everyone, including manufacturing. OA has made strategic and responsible decisions to minimally pass along these costs yet offset many of our core competencies in manufacturing to keep our overall price structure competitive. That said, we continue to find new ways to bring our products to market without placing this burden on our future owners."

Mundy adds that interest rates have placed some restraints on buyers, though the company,

60K
The number of new UHNWIs globally in the last three years

38%
The US's share of the world's USD millionaires

15%
The chance of a US recession, according to Goldman Sachs

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like many others, generally sees cash transactions. “We certainly are aware that leverage happens behind the scenes and feel that our owners are finding conservative ways to adapt. As a company, we operate in a conservative method to not rely on outside capital, which allows us to be more nimble in changing markets,” says Mundy.

Lisa Verbit, national marine executive at Bank of America, says that while the number of yacht loans the bank is closing is lower than in 2021 or 2022, the dollar volume is up considerably due to the size of the loans – which are used as financial tools by the wealthy customers who do not need to take on debt to acquire yachts.

“Superyacht sales are down from the high in 2021 but are still robust when compared to levels over the past five years,” says Verbit. “Clients who see a favourable arbitrage opportunity are entering into new yacht loan facilities with us, as well as opting to renew existing loans. The higher interest rate environment is expected to persist; just how high remains to be seen, but there is an expectation that there will be a new ‘norm’ for the level of interest rates.”

This, however, is unlikely to have much effect on superyacht buyers because, as Verbit puts it, “UHNW clients don’t need to finance their yachts, they choose to do so.”

After a turbulent few years with Covid-19, the invasion of Ukraine and now conflict in the Middle East, the economic outlook remains cloudy. In October 2023, global investment bank Goldman Sachs forecast a near-term “pothole” in US economic growth, with a sharp slowdown from 3.5 per cent in the third quarter of the year to 0.7 per cent in the fourth. Drags on the world’s largest economy include the end of the student loan moratorium, strikes in the automotive sector, rising oil prices, tightening financial conditions due to a “higher-for-longer” outlook for Federal Reserve interest rates and a slowdown in consumer spending after a strong summer.

Economists surveyed by Bloomberg in September 2023 forecast a 55 per cent chance of a US recession in the following 12 months – the lowest level for a year, indicating a rather gloomy but somewhat improving sentiment. Goldman Sachs is more upbeat, predicting only a 15 per cent chance of recession.

On the downside, interest rates look set to remain high, and equity markets have already been hit by the “higher-for-longer” outlook, while a September sell-off drove the yield on 10-year US Treasuries to a 10-year high. The rate outlook could stall a recovering housing market, and, some argue, the impact of higher rates has not fully fed through to the real economy yet, so rapid were the rises. A prolonged or extended war in the Middle East would both push up oil prices further and hit investor sentiment. Meanwhile, China is embroiled in an ongoing property sector crisis that could prove a long-term drag on the domestic and global economies.

Goldman’s more upbeat outlook is based on the judgement that the weaknesses seen in Q4 2023 will be short-lived and that fundamentals are favourable in the US: rising real disposable income, “stellar” news on inflation (despite upward pressure from oil prices) and labour market rebalancing. The bank also sees positive global news from international indicators including Korean exports, and likely monetary policy easing both in emerging markets and the eurozone and UK as inflation falls. However, Goldman also notes the risks from the Chinese property market, and says that China’s growth is likely to trend downward in coming years.

The IMF October 2023 *World Economic Outlook* reflects this mixed picture – it forecasts that global growth will slow to 2.9 per cent in 2024, with the US seeing a drop to 1.5 per cent, and global inflation not to drop to target levels until 2025.

“The macroeconomic implications that lie ahead will be watched closely as economic and political policy will not be unilateral across the world,” says Mundy. “Our primary market in the US is showing a path towards a positive future.”

Stephen Taddie, chief economist and managing partner at wealth management and financial advisory firm HoyleCohen, says that investment markets, important for UHNW wealth, have been mixed over the past two years, with stocks recovering from pandemic lows but interest rate increases over the past 18 months hammering bond prices and having a negative impact on real-estate values. UHNWI spending is changing – potentially in the yachting market’s favour.

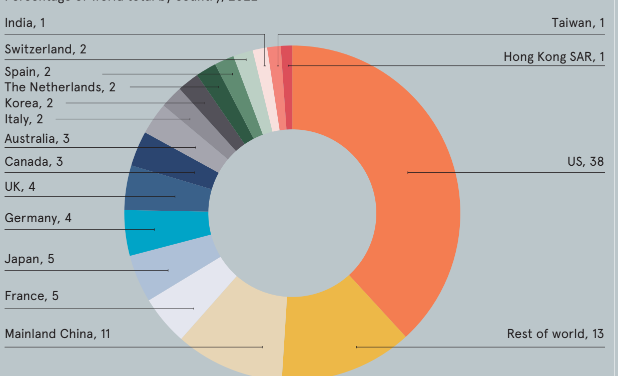
2.9%
The IMF’s forecast for global growth in 2024

372K
The number of UHNWIs predicted in 2027, as forecast by UBS

5.8%
Global inflation in 2023, according to the IMF

MILLIONAIRES BY MARKET

Percentage of world total by country, 2022



Source: James Davies, Rodrigo Lluberas and Anthony Shorrocks; Global Wealth Databook 2023

> **“The rich have never been wealthier, and their spending is still in high gear”**

“The feared ‘richcession’ is not playing out in theatres everywhere. The rich have never been wealthier, and their spending is still in high gear,” says Taddie. “But the direction of that spending has shifted from high-end goods to high-end services. Most have ‘spent up’ demand for typical high-end items, but still have ‘pent up’ demand for high-end services and ultra high-end goods.”

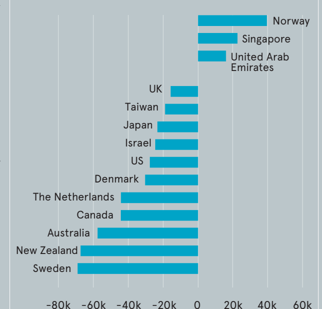
With volatility meaning that large investment portfolios see substantial swings in value, some UHNWIs will choose to spend large sums on individual experiences, rather than seeing continued negative return on portfolio investments, Taddie adds.

“Smart, ultra-rich investors are typically ultra-long-term investors, as it has been hammered into their heads that reactionary moves with respect to investments are usually counterproductive,” Taddie says. “Without disturbing current investments – heeding that age-old wisdom – shifting the destination of incoming cash flow towards once-in-a-lifetime or bucket-list experiences is easy. With money markets sporting five per cent yields, the extra interest earnings can go towards an extra day of fun.”

More good news for the industry is that the number of people able to afford that extra day is set to grow strongly over the coming years. UBS forecasts that the number of UHNWIs globally will grow by 129,000 to reach 372,000 by 2027. More than half of UHNWIs reside in North America, with Asia-Pacific (APAC, including China and India) home to 66,000, and Europe 40,000. APAC is expected to see particularly strong growth over the next five years, with UHNWIs doubling to 123,000. With 56 per cent of them in China, the country is expected to have more ultra-rich (68,000) than all Europe (57,000).

“While Asia is not an emerging market, it is still full of potential,” says Bensahel. “Beyond our office in Hong Kong, Camper & Nicholsons has invested in offices in Singapore and is looking to further increase our activity in this region.”

CHANGE IN WEALTH PER ADULT (USD), 2022 – BIGGEST GAINS AND LOSSES



Source: James Davies, Rodrigo Lluberas and Anthony Shorrocks; Global Wealth Databook 2023

Bensahel expects continued growth in the global superyacht fleet, with many recently purchased new-build yachts launched. A number of market trends are emerging, driven both by economics and changing tastes. He says that tighter regulations that limit coastal access to smaller boats may see owners of 30- to 35-metre vessels step down to smaller yachts, chartering larger ones when they need to.

Rose Damen, managing director of Damen Yachting, expects continued growth in its Yacht Support segment – purpose-built support vessels for superyachts. In 2023, it launched its first Yacht Support 53, which forms the centrepiece of Anthony Hsieh’s *Bad Company* fishing fleet, playing a central role in an extensive fishing programme that combines fishing in relatively unchartered waters and support for several marine conservation projects. Damen Yachting also delivered a 75-metre Disaster Relief Vessel based on the Yacht Support Platform (*see page 118 for our exclusive interview with Hsieh*).

In May 2023, Damen Yachting announced a collaboration with Danish methanol fuel cell developer Blue World Technologies, which will help the builder focus on next-generation technology that can help deliver more sustainable vessels as well as more efficient operation.

“I am very encouraged with the adaptation of the yacht industry putting greater focus on sustainability,” says Mundy. “While not all owners are demanding it today, the industry remains committed to moving our offerings into this realm.” He also underlines the importance of ensuring proper engineering and safety while transitioning towards more green initiatives.

Demand for greener technology is driven in part by younger new buyers, who are reshaping demand in other ways, too. Fraser’s Duncan says there has been a surge in coverage of yachts through social media and influencers, as well as the mainstream luxury press, as part of “an incredible increase in client numbers across the board”. The influx of younger clients has led to an impetus to deploy the user-experience advantages of marketing technology and deep data to improve client experience – which such buyers are used to in other parts of their lives.

In the coming years, Duncan says that there will be an increased need for key industry players to work more closely together on areas that have an impact on all participations, not least in focusing on a harmonised approach to sustainability initiatives.

“As an industry, in many ways, we have taken leaps and bounds in the right direction, even in just the last three or four years,” says Duncan. “But coherence and consistency remain challenges to be overcome by every single player: shipyards, designers, architects, brokers, yacht managers, crew, marinas, governments and, of course, those who stand to enjoy the most from our shared vision together – our clients.” ◻

For a live snapshot of the superyacht market, visit *boatint.com/boat-pro*