2010 was a far better year than we at Berthon had any reason to expect. We filed results in line with 2008 numbers on the brokerage side of the business, whilst new yacht sales remained difficult as a result of sluggish demand as experienced by the rest of the industry but exacerbated also by adverse currency - we buy in Norwegian and Swedish Krona, both of which have been particularly strong of late.

However, brokerage at Berthon is our core business, so our nimble approach continues to pay dividends. We have always believed that it is important to pay the greatest attention to currency and also to look carefully at those sectors of the market in which the buyers are most active. Accordingly, we continue to offer unbiased advice on pricing to owners as it is important that yacht owners have an honest appraisal of value and likely disposal time. The market is still not strong and we believe that the lazy brokers’ policy of acceding to an owner’s expectation of price in the useless hope that you will get lucky (or “drive the owner down on price eventually”) is a policy that has no place in professional yacht brokerage today. As brokers, Berthon reflect the market - we cannot set it. Our owners appreciate honesty at the outset and can then decide to either place their yacht on the market or to extract further value by sailing for another season. By the same token, however, some buyers are imagining that with a good deal comes a perfect yacht. It is rare but unusual and as we forewarned last year, most of the “best” deals have already been had.

2010 has seen us expand Berthon USA in Newport RI, in order to uplift standards, and deliver a better service for yacht owners and buyers internationally. Coalitions are clearly cool and by teaming up with a well known team in the US, we are able to leverage both the increased internationalism.

Increasingly the brokerage community is understanding that yachtsmen deserve the best service and that it is up to us to regulate ourselves to deliver on this. If we do not, we are likely to have external regulation thrust upon us.

During recessions prices are driven downwards, and of course we are paid as a percentage of the price achieved and therefore it is in our interest to aim for the best possible price; lower yacht prices therefore have a serious effect on our course we are paid as a percentage of the price achieved and therefore it is in our interest to aim for the best possible price; lower yacht prices therefore have a serious effect on our price; lower yacht prices therefore have a serious effect on our business as we have to process more sales for the same revenue. At Berthon, however, apart from longer hours in the office, we have limited cost cutting so that the team of experts remain in situ; advertising is carefully targeted; effective use of corresponding brokers worldwide is paramount; and above all, added investment in these difficult times drives buyers to Berthon by dynamic use of the internet and modern methods of distributing content.

Yacht finance has altered hugely with many providers out of the market. There does seem to be a perception that finance for yachts is no longer available. This is not the case, and our friends at Lombard write for us to explain why this is.

An interesting facet of the market that became very apparent in 2010 was that the market has developed definitive sweet spots and these need to be indentified yet not relied on as they change without warning. As predicted last year, there are some yachts which, because of low supply as a result of falling new yacht numbers and currency, have appeared to appreciate in value and yet others have failed to generate any market at all.

2010 has also seen HM Revenue & Customs tighten up on the VAT treatment of yachts and other Revenue Authorities internationally are also following suit, particularly in the traditionally lax Med market where deciding what interpretations of the EU Directive is acceptable is far from an exact science. Of course this is a function of governments’ need to generate revenue and to regularise a market which has been largely ignored over the past few years. We spend a lot of time dealing with the implications of this in our job and we predict that this is a situation which is not going to improve any time soon. There is a general perception that sales taxes should be paid by all where no real legitimate business is really carried out, which is understandable.

As with new houses, cars and other high value goods, new yacht sales remain weak across the board. The major manufacturers have now managed a reduction in volume which is important to ensure that they are profitable at these lower production levels. We predict demand will improve in the next three years, particularly as new markets start to develop - India, and Asia being the 2 main ones - but the massive levels of supply pre recession will not be seen again for a very long time. A by-product of this will be less choice with some brands merging and brand names becoming subsumed into others. As the key markets shift, the sort of yachts that are desirable will change significantly too; new markets also bring home grown products to the market in time which will be stiff competition for the old world yachting industry. »

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As business in general is all about confidence, and as the spectre of 1930s recession recedes, demand will pick up. Those with cash, in the main, still have it but they need to feel confident about spending. Whether we witness a V shaped recovery or a W creeps in, the UK Coalition seems hell bent on sorting the UK’s finances which will be positive for the UK in the years to come. We continue to predict a bumpy ride in 2011 as increased taxes, cutbacks and slower growing economies will all do little to assist with consumer confidence. However, as growth figures start to recover we will see demand pick up quickly as evidenced in our office in the USA where we have seen the enquiry rate normalise and boat shows, like Newport last fall, having better attendance figures than has been the case for some years.

Of course living in interesting times has its benefits - it is never dull! With active and profitable offices in the UK, France and USA we are able to offer good advice to our client base and because we have no bank debt we are able to invest in tangible and intangible infrastructure to ensure that our service continues to improve. We are also delighted to work very closely with world class partners - Windy Boats from Norway distributed by us in the UK and France, Najad Yachts of Sweden and Rustler Yachts of the UK distributed by us in the USA and Discovery Yachts from the UK, with whom we have a joint venture to broker pre-owned Discovery yachts worldwide; we also assist Dashew Offshore with marketing the FPB 64’ and FPB 112’ in Europe.

As ever, the 2011 Berthon Market Report will offer our view of the important changes to the Market in 2010 and update you on how we believe the yacht market is reacting; we hope that you will enjoy our scribblings.  

Sue Grant, Managing Director

Sailing Yachts

by Alex Grabau

There are few obvious signs that the general market is going to improve any time soon, and the combination of lower new boat sales and many existing owners deciding to stay put rather than upgrade means that whilst the number of buyers in the market may have shrunk, the numbers of sellers has also. This has provided a cushioned landing for residual values as the ratio of supply and demand has remained fairly constant with just the size of the market fluctuating in tune with the economy. Throw in the added benefit that unlike a property, a yacht is a truly portable asset that can imported or exported at will, all of a sudden, a yacht does not seem such a silly place to put your money, especially when you factor in enjoyment through usage and pride of ownership - two features rarely present in stock & shares or investment properties.

Berthon has long been a specialist in the bluewater market, with sales of significant numbers of ‘world-girdling’ yachts forming the backbone of the business. Our long-standing and close relationship with the World Cruising Club (www.worldcruising.com) continues to go from strength to strength. Having just enjoyed a record-number of entries for their 25th ARC (Atlantic Rally for Cruisers), the event is clear evidence that the tough global economy has not dampened the inclination and enthusiasm to take on a ‘great adventure’. This year I left my colleague, Alan McIlroy, to man the fort and sailed aboard the Challenge 72 ‘BIG SPIRIT’ (sold by Berthon in 2007 – www.bigspiritadventures.com), completing my first ARC. It was fantastic to see the sheer diversity in terms of nationalities, age groups, backgrounds and of course types of yacht entered in the event.

With the World Cruising Club enjoying a huge upsurge of interest in their World ARC round the world event and the addition of the American ‘Caribbean 1500’ event, there is little doubt that the bluewater cruising market continues to flout the economic downturn.

So, how best to maximise your chances of selling in this market? The three ‘P’s – Price, Presentation and Paperwork is the answer. In a fast-paced market you can’t afford to be too ambitious on price, laid back on presentation and relaxed with the paperwork. In a difficult market such as we are now experiencing, the successful sellers will be the ones who price their yacht competitively and take a philosophical view on any subsequent offers, those who ensure their yachts present in the best possible manner, and those who can offer a full and clear chain of legal title, evidence of VAT payment and current registration.

For the buyers, what to look for? Anything with the legs to cross an ocean is a great starting point. Many buyers new to the market appear not so much interested in blindly buying from established ‘blue chip’ marques, but how the actual yacht fulfils their requirements. From sailing up and down the start line of the 2010 ARC, it would seem that crossing an ocean does not necessarily require 45-55ft of Hallberg Rassy or Suffolk’s finest. If it feels right, it usually is right, so our big tip for 2011 is not to write off slightly more left-of-field options as these invariably may offer better value and could be more focused to your individual needs.

Sue Grant, Managing Director
Our continued efforts and high level marketing presence paid dividends last year. The motor yacht department grew strongly having posted a marked increase in successful completions on 2009. Our attention to detail and quality of service led to sales in all sectors of the market; from expedition yachts in the Mediterranean, to classics and also models from the major English manufacturers in the UK.

We do however remain cautious about 2011, there is still much uncertainty in the market and finance is not widely available, which is a key factor for motor yachts as they are statistically more likely to be financed than a sailing yacht, and whilst most of the forced sales have come and gone, we are left with a weak market. New buyers are on the decrease, and a number of existing yacht owners have decided to maintain and refit their current yachts for the time being. Luxury products like motorboats can be hard to justify, and concerns over rising fuel bills will undoubtedly have a continued impact in the year ahead. It is for these reasons that we must continue to work exceedingly hard with yacht owners to ensure that the yachts we have for sale are correctly priced.

It is still the case that any yacht must be pitched on the leading edge of the competition in order to attract that vital initial enquiry. We are in the fortunate position of having a vast pool of knowledge to call upon when it comes to assessing what the market is prepared to pay for any given yacht. No one can argue with the hard facts of actual sold prices, and these must be considered with more gravitas than some quoted asking prices advertised in both print and online media and indeed those websites that purport to offer information about prices at which yachts are sold. These are, in our experience, massively inaccurate and do not reflect the market with any degree of accuracy. Whilst prices have fallen over the last 2 years, there is definite evidence of this starting to level off in the UK. It is now time for boats in the Mediterranean, which have been on the market unsold at overinflated asking prices for a considerable amount of time to have price drops.

Yacht buyers are scarce and particularly well informed. It is often the case that yachts do not sell to the one serious client who expresses an interest through ‘seller intransigency’; sadly it may be another year before another serious buyer comes along, and of course he will be armed with just as much information and the knowledge the boat has been around a while. With this in mind, immaculate presentation, thorough servicing, and possibly even the evidence of an upfront survey are equally as important as setting the asking price, but above, if there is an interested buyer, he may be setting the market in these difficult times, so don’t lose him.

If your yacht is advanced in years, it is worthwhile having a survey carried out prior to bringing the yacht to market. This removes the huge issue of potential uncertainty in a buyer’s mind, and enables you to consider rectifying any issues that could become potential reasons for unnecessary further negotiations at a later date. What better position could we, as your Broker, be in, than that of confidently extolling the virtues of a yacht, backed up by a qualified survey?

In short, be competitive with the asking price, meticulous in her presentation, and make sure your broker is committed, tenacious and professional.

It seems like only yesterday I was running around in circles in excitement when my father bought home the first home computer, proudly boasting 456k of memory and promising to revolutionise every aspect of our home life. Now I am looking at my 2 year old daughter who will never know what a CD is, let alone vinyl and has already taken to the mobile phone at the most inappropiate moments. The continual onslaught of technology and design to be better, faster, lighter, stronger has driven a relatively new development of performance cruising yachts.

The moniker ‘cruiser / racer’ has been much overused in the past to describe either a racing yacht with an interior (never to be cruised), or a cruising yacht with a fancy set of sails, or as a good friend of mine described “lipstick on a pig”. The truth of this however is the racing yacht with an interior is actually designed to a rule that favours heavy displacement to be sailed with an army on the windward side, so not actually offering great performance on the water, but results on handicap. The Cruiser with the fancy sails? - well what would you expect if you put slick tyres on your land rover?

As material and design technological advances are made, Performances Cruisers are becoming easier to sail, and most importantly stiffer without relying on displacement. This market sector has been treated well by brands such as J-Boats, Swan and Grand Soleil, but now more and more manufacturers are awakening to the new dawn, all good news for the brokerage market in time.
On the racing scene, regattas are still a little quieter than a few years ago, particularly the Grand Prix circuit. Week long regattas seem to be slightly less popular; however offshore sailing is on the rise. IRC still is strong worldwide, and working well as a leveller over the broad spectrum. Offshore racing is proving more and more popular; the Fastnet Race was sold out within a matter of days and the Olympics will hopefully drive more enthusiasm. In one design racing, smaller and cheaper is the order of the day with the Melges 32 filling a suitable gap with the racing at the very top level, but the budgets a fraction of the Farr 40 and much, much more fun!

The market has been battering upwind for the past year, and the forecast is not too rosy for the next leg. As ever in these turbulent times yachts that are selling are in tip top condition and sensibly priced. As both sides of the market equation have diminished, (i.e both supply and demand are much lower), prices have stabilized.

There was no doubt that 2010 would be a challenge… however once again the Windy marque has proven its resilience to even the most unpredictable economic conditions.

Out in Scandinavia Windy Boats have continued to invest heavily in the infrastructure of their ship yards, and also in the development of new models. Last spring we saw the launch of the Windy 40' Maestro and SR52' Blackbird super tender, which were extremely well reviewed by the international press and have been nominated for several prestigious awards.

The 40' Maestro represents the latest installment in an exciting new range of boats from Windy which benefit from the latest in high tech construction and design, making the new generation models faster, stronger and even more economical. The new models also offer improved interior volume, increased natural light and a wide choice in cockpit upholstery, dashboard finish and hull colour.

At Dusseldorf Boat Show 2011, Windy announced the launch of an all-new Zonda 31’, a low profile weekender with a great hull and plenty of horsepower. The deep cockpit feels safe & secure for the family, whilst down below you find a large fixed double berth, well appointed shower compartment and galley.

The past year has proven to be a very interesting chapter for the brokerage of Windy Boats through our listings. Without doubt, Berthon is the place in Europe to come and look for a second-hand Norwegian flyer – with a stock of some 20 or so, well-prepared examples ashore for easy viewing from our custom-made gantries.

The adage that “every day is a boat show” has certainly been true, and we have been selling into the Scandinavian, The Balearics, Italian, German and French markets strongly, on account of the currency advantage against £Sterling. The second half of the year, however, led to much stronger demand from our domestic UK buyers – with a change in Government, strengthening stock markets and the ‘I’m only here once’ argument being strong persuaders for investing in a really usable, quality product.

These diverse markets have led to one of our strongest trading years, which can of course put added pressure on new listings. However, by offering the most pro-active specialist brokering operation, with the support of our Windy distributorship, service and maintenance facilities, we have in fact bucked the trend and increased new listings coming to market.

It is increasingly difficult to predict the future, but by maintaining the core Windy values of excellent service, benchmark quality and handling, the high residual values of our product are weathering the tough times currently experienced by many high-production powerboat manufacturers’ brokerage markets.
As I write this, I am just back from 9 days at the New England Boatshow, in Boston. The US, for whatever reason, has countless largely small, regional shows, when what it could really use, is a leaf out of Dusseldorf’s “Buch”: less shows, and make them massive.

Brokerage wise, the US statistically, is tracking similarly to last year in numbers of boats sold, however, the value of those yachts has increased, especially on the powerboat side. This is probably due to the fact that the large glut of (predominantly) repossessed powerboats has been worked off to a large extent. Sailing yachts has remained as was in 2010 in numbers and value from last year, and sailing as a sport remains a fraction of the size that it is in Europe.

We have started to see an increase in enquiries, and deals in the $300,000 – $1,000,000 price range, where there were very few in previous years. Yachts cheaper than $300 000 seem to have fairly good traffic, and good quality listings (especially sailing yachts) are getting harder to find. This makes the yachts for sale via our European Offices an option for American buyers.

On the new yacht side of things, vast swings have continued in the currency markets, which doesn’t give great confidence to anyone considering a foreign built boat, if they feel the dollar is at a weak point. All the factors that one would think would strengthen the dollar – Social unrest in Arab countries, debt problems in the Euro zone for example, seemed to lately have weakened it. “QE2” and interest rates trump social unrest, I guess.

Berthon USA
by Alan Baines

Berthon France
by Pierre Vignes

Berthon France is an important part of the Berthon Team; our busy office houses myself and 3 other yachting professionals.

Valérie Perot is in charge of berth sales, Isabelle Skaf takes care of the accounts and the commercial side, Bruno Kairet is responsible for Berthon Windy France and I look after the brokerage part of the business.

In spite of gloomy predictions in the press, 2010 was a better year than we were expecting. We adapted to the changing market in good time, starting in 2008/2009, by adjusting our pricing structure to reflect the changing times; this allowed us to end 2010 with some pleasing results. Today the market appears to have recognised that well priced boats are selling locally and that euro buyers have often been able to find better deals overseas; even though, there are still price reductions needed to reflect what has been going on in the wider market. Waiting for the euro to lose some of its strength does not re-price your boat internationally, though! Although the ratio of vessels coming to market, compared with those for sale or removed from market, is roughly even, there are probably a few ‘bargains still to be had’ as interest rates adjust upwards in the coming months.

The Windy side of the business performed solidly in 2010, with the market in France appreciating the quality of the brand and the new models launched last year. Despite tough competition from other mainstream brands, particularly Princess, Fairline and Sunseeker, all English manufacturers with currency in their favour, the Windy brand continues to grow in the French territory. This also reinforces our belief that there are always clients who are able to discern quality and are still prepared to pay for it in economically challenging circumstances.
Lessons learned from 2010

2009 was not a golden year for the Sales Division at Berthon or anywhere else for that matter! Although we were profitable, we suffered from falling prices which meant that our revenue fell and we spent the year unlearning all the normal rules of the yacht market, encouraging bold acceptances that then turned out to be correct. By 2010 we were once again ahead of the curve and were more able to forewarn rather than react to a rapidly changing marketplace. However, we still see parts of our industry waiting for the market to recover and for things to go back to the way that they were before the crash. This is nonsense, this is a new world and nothing will ever be the same again and yachtsmen are more cautious with both their time and their cash with value and their risk profile altering totally. The big lesson for us was the need to constantly question preconceived ideas about those yachts selling and those not, and to accept that price correction is a reality and that for some yachts they have simply lost their shine in terms of desirability; and to make owners aware of this early to ensure that an exit is achieved. We have a policy of regular contact with our yacht owners so that they are aware of what’s happening on a regular basis. The voyage from listing to sale is one that we must travel together.

We also learnt that the numerous bargain hunters in the market place were and are able to drive down prices of new production yachts as their distributors simply must sell, but are now not finding the bargains that they expect on the brokerage market. However, their price driven purchases of new yachts is certainly seriously affecting the second hand market for yachts such as Bavaria, Hanse, Jeanneau, and as with many production brands (rather than semi-production) we see second hand prices fall on a monthly basis exacerbated by the large numbers of new models being brought to the market.

That is why on new yacht sales, we only sell premium product. The lesson learnt with these has been that discounting is not an option, particularly where currency is involved. High quality yachts are not cheap - nor have they ever been. It has been refreshing to see that clients appreciate this and are prepared to pay a fair price for having the best in class. This of course has the pleasing effect of preserving price and desirability of these yachts on the second hand market which in turn secures the investment of the new yacht buyer. As time goes on, the disparity between high quality and production yachts will widen.

Our new world has brought a more considered yacht purchaser to the yachting industry and it is important that we raise our game to deliver the service that they expect from us. The market aided by the web, has made the market truly international and those who seek to continue to earn a living from their traditional client base will end up with a considerably smaller business. We are fortunate that our industry has the capability to attract interest from new emerging markets that we had not considered before and this is the way that we have taken market share.

In common with all other sensible businesses, we are a leaner business now, and every penny is counted. However, we have resisted the temptation to reduce the investment in marketing as this is our lifeline and the yacht owners who trust us with the sale of their yachts have the right to expect that this continues to be a priority. Indeed, you may have noticed substantially thinner magazines with just as many Berthon pages as pre-recession. It is what we do best, and we are proud of it. However, there are new mediums that we are exploiting such as web optimisation using a new Berthon blog, Twitter and so forth, allied with the strong policy of investment in advertising and at boat shows and our support of events such as the Atlantic Rally for Cruisers.

We also continue to invest in our team of brokers to ensure continuity and their ever growing experience ensures that we are up to the challenge of the new market. Those who have reduced advertising and staffing spend do so at the expense of market share which is how we will grow over the next period. In short, we have learnt to do more with less and never at the expense of the service that we offer.
The currency question

Prior to the recession, we had fairly fixed ideas on where various currencies were positioned within our world. The level of currency movement since 2008 has been astonishing and we expect this to continue.

As the stock of yachts is international, we are handling a lot of transactions where the pricing is critical and the seller is not prepared to accept an offer in a currency that he does not know or is not one that he can use, as the currency market is so volatile. Therefore buyers are increasingly faced with the reality that to get the yacht that they want at a good price, they have to take on responsibility for the currency movement and pay in the seller’s choice of currency.

This is not as frightening as it appears. At Berthon we are able to buy currency direct through the dealing room at our Bank or to buy currency forward should you wish. We often offer better rates than high street banks will and we make no extra charges for the service if you are buying a yacht from us.

Whilst the most sensible approach is to pay the deposit in your own currency and make the change into the currency of the contract at acceptance of the yacht after sea trial and survey, if there is some doubt; however, be careful not to fall foul of volatility and lose the deal for the sake of trying too hard to make an extra cent or two. Currencies are something that many of our clients have to deal with in the course of business every day; to others it can be a concern. It is important that all the funds are available at the point of acceptance, as when the currency is bought – it needs to be paid for immediately so we will need your funds with us in our client account.

When purchasing new yachts from overseas where the distributor is selling in your own currency, please be aware that there is an element of risk for the distributor as the currency is a moveable feast. The only way that they can protect themselves against this is to forward buy the currency needed, but of course once they have done this, if the rate moves in favour of your currency they cannot give you the benefit of this as it is too late. Therefore, please bear in mind that there is a price to pay for not having to worry about this aspect of your purchase and don’t imagine that the distributor is making a massive gain on currency when you are buying from them in your local denomination!

The graph below shows 4 currencies that are particularly close to our hearts at Berthon – £ Sterling, US$, Norwegian Krona and the € Euro and their level of movement since January 2008. The euro is the currency against which the other 3 are compared. Here you can see the downward shift of the US$ against the euro and then its recovery. The £ has been very weak and the Norwegian Krona remained pretty stable and strong against all currencies. We expect to see continued volatility between these 3 currencies but we cannot see the euro staying this strong for long.
Because our industry is so web-led, yacht prices across the board are being influenced by currency 24/7 and this is something that we have become accustomed to dealing with. As time goes on, where there is a lot of currency movement, those zones where currency is weaker are quickly reacting to this and taking the opportunity to raise prices to normalize the market. The problem with this is that unless the downward currency shift is permanent, if prices are not quickly dropped, the home market stalls because of increased price so that purchasers in this zone go abroad to buy and the foreign strong currency buyers no longer find the pricing attractive. If you are considering playing the currency game with the price of your yacht, it is important to watch the long term trend and also remember that a modest discount for an overseas buyer from you, is unlikely to excite him over buying in his domestic market with the ancillary inconvenience, travelling, delivery and maybe local taxes to pay on repatriation to his zone. It has to make serious financial sense for him to take the trouble.

In conclusion, we do not recommend that yacht owners play the currency game; price in a currency with which you are comfortable and which is useful to you. If a strong currency buyer gets a great deal – that’s fine provided that you are happy with your side of the bargain. Pricing to match higher priced yachts will surely leave yours waiting to be the last sold and by then, depreciation will be taking its toll, or the buoyant market may have moved to another sector or type of yacht. Currency is not the way to increase the value of your asset. Buyers are still relatively thin on the ground and should be encouraged to purchase at fair market value in your currency rather than focus being put on the good value that they are receiving in theirs.

The international yacht brokerage market regulates itself

With the development of the web and the movement of currency, the brokerage market becomes ever more international with the passage of time. This is going to continue to be the case as markets in India and Asia open up and those markets with adequate stock sell into emerging markets and as those emerging markets mature and start to develop their own brokerage and new yacht markets. This is exciting for us all. The international brokerage community is therefore having more contact with differing markets than ever before and there is a need for standards to be upheld worldwide to ensure that a buyer from Asia receives the same level of service as one from the USA for example. In various areas there are brokerage associations which uphold standards in their territory. Examples of these are the BRBA & YBDSA in the UK, MYBA in the Mediterranean, YBAA, AYCA, CYBA & FYBA in the USA, BCYBA in Canada and BIA in Australia.

These associations and others are now behind a movement to form an association - the International Yacht Council (IYC) - which will represent all associations worldwide in order to promote the same standards whether you are buying in Mumbai or in Miami, Southampton or Sydney. This we believe will be good news for yacht purchasers and sellers and will enable service levels worldwide to be standardised, and we hope it will make it possible for clients to buy and sell elsewhere in the world with much more confidence. But do be careful, there are still rogue players out there and it is our job to ensure we deal with only the very best. The fact that Berthon has been selling yachts for over 100 years means we are well placed to deal with the very best. If you have found a yacht through a local broker and you are concerned, ask us to become involved to validate the paperwork, and to hold funds.

The brokerage community is particularly concerned that the delivery of information on the web is not altogether reliable with many listings appearing numerous times and worse than this, a large number of sold yachts appearing on sites or worse still yachts which were never actually on the market (ghost listings as we call them). Like Arthur Daley, some less scrupulous brokers are putting ghost yachts onto the system to encourage enquiries to try to interest yacht buyers in yachts that they might get listed or that other brokers are already listing. This wastes the purchaser’s time and does little to instil a sense of professionalism in our industry. Berthon has been at the forefront of trying to insist on accurate portals and immediate corrections. Some portals are far better than others and sadly the biggest is not always the most accurate.

A professional yacht broker is involved in the whole process of transacting the yacht and this is a serious business. Increasingly yacht brokers’ associations are asking brokers to sit written examinations before clearing them as full yacht brokers and this is a welcome development. It is our hope that with the development of IYC that the industry will become more transparent and the sale of your yacht or the purchase of her, will become a less burdensome event.
Yacht finance in 2011 as seen by Lombard
by Tom Milne

While we have seen steady, if not necessarily buoyant, sales over the last two years, Lombard sees the market strengthening in 2011. This forecast is underpinned by a strong level of enquiries in the early part of this year, a trend we expect to be reflected in finance and boat sales. This is helped by the sense of increased confidence in overall market recovery, a growing understanding that finance continues to be available and also low interest rates, coupled with low boat prices. Now is the ideal time to buy and despite the prospect of an increase in interest rates later in the year, the prediction is that rates will remain low in relative terms and not have a detrimental impact on the upward trend of boat sales.

In terms of the used vessel market, Lombard has seen a rise in final selling prices compared to 2009/10 and over the last four months prices have increased to approximately 91 per cent of the final advertised price. We believe that this indicates that either sellers are being more realistic about final asking prices, or that the market is stabilising, resulting in less negotiation on prices. Values of non-production yachts and larger high performance vessels have been more obviously affected by the recession, and these now represent better value for money.

As one of the market leaders in asset finance Lombard has continued to provide funding for boat purchases throughout the challenges of the last two to three years and the process is no more difficult now than it was two years ago. We are finding that purchasers are pleasantly surprised that finance is readily available to those who meet the standard lending criteria.

Over the last 12 months, the industry has seen some lenders withdrawing from the market. Lombard however remains fully committed to supporting boat purchasers by offering a range of marine finance solutions.

The leisure marine sector has proved to be extremely resilient in past economic downturns, and we see no reason why this will not be the case as we move towards a period of recovery in 2011 and beyond. As Lombard celebrates its 150th anniversary, 55 years of which have been in marine finance, our experience indicates that we can be very positive about the future of the marine sector and the continued important role of marine financiers in securing this future.

Lombard provides various forms of asset finance to businesses of varying sizes – from SMEs to large corporates.

For more information contact:
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What’s selling and what’s not

One of the most prominent features of 2010 was the lack of demand for yachts in certain sectors. Before the recession, it was generally the case that there was a buyer for every yacht but it was a case of getting the 3 golden factors in line – condition, location and price. What we are now seeing is that there are sectors of the market where demand levels have contracted massively. These sectors vary depending in which physical market you are working. This has caused a lot of confusion and we have done a lot of work to understand the way that the market is moving so that we can give the correct advice to yacht owners so that they are totally aware of the chances of selling their yacht, and the price likely to be achieved.

In other parts of the market, there is occasionally excessive demand and this has sometimes pushed prices up. However, owners of yachts that have strong residual values at the moment should not be sanguine as another feature of the market at the moment is that it can move very rapidly and a yacht that was very attractive, can lose her appeal in a matter of weeks.

In a market that is so volatile, it is important to read the indicators and to keep in touch with the market all the time. We regard this as a very important part of our job as our clients rely on us to offer the best advice possible.

The trend which we have found particularly interesting this year on this side of the pond has been the change away from yachts that carry crew to those which are smaller and probably more expensive but which are perceived to have lower carrying costs. This is not a trend that we are seeing in the USA where larger, well maintained yachts offer superb value and the yacht buyers that side of the Atlantic see the advantages of having yachts that are crewed and fully operational all the time and available for a more extensive cruising programme on an annual basis and which may be available for some charter to defray costs too.
This has meant that in 2010 Americans have bought some really excellent mid range cruising and motor yachts at good prices in Europe and are now enjoying them, where as the European buyer is content with a smaller yacht that can be much less used. Of course this does mean that the European yachtsman is more hands on in terms of maintenance but usage level is typically much lower. Less use, however, does not bode well if the yacht is also less well maintained!

Careful buyers at the moment are more concerned with residual value than virtually anything else at all, and in some cases even seem willing to purchase their second choice if they perceive that the residual value is going to be better. The problem with this is that those marques which are perceived to be the safest change on a regular basis. This is happening mainly where a number of the same model appear on the market at the same time. Of course this is no reflection on the class, it is simply that there is a cycle to yacht ownership and where there are say 100 on the water, it is sensible to assume that 15% of the fleet will be on the market. However, when this happens, the web will show them all for sale at once, some of them a few times if the owner has instructed more than one broker, and yacht buyers then start to think that these yachts are hard to sell. At once, they become the wallflower of the brokerage market until the fleet starts to move – and that only starts to occur at generally lower prices.

One offs and semi-custom build where brokerage support is not well catered for can be very vulnerable in today's market as people worry about residual value. As the yachts get larger this should matter less. However, with relatively weak demand there are still some great yachts available which simply aren’t selling at the moment.

At times we are recommending to some yacht sellers not to put their yachts on the market at the moment as there will be few enquiries and the chance of a prompt sale is small. What we do know is that the market is moving quite rapidly so we expect that the landscape of what is attractive and saleable will continue to fluctuate this year.

Berthon are the preferred brokers for Discovery Yachts. The Discovery 55 is the only model which they produce that can be found on the brokerage market at the moment. She is a very attractive yacht and readily saleable in the current market. This is of course because she is a great yacht. However, more importantly, with the broker and builder working together we are able to offer the best information to buyers and a really comprehensive buying service. Because Berthon is predominantly a brokerage house working in the second hand marketplace every day, we are aware of pricing and we are not obliged to price the yachts too highly with an eye to preserving the residual pricing on new build. It also works well for Discovery owners because we offer a very comprehensive marketing package and know the yachts extremely well. We will achieve fair market price and sellers upgrading to one of their 67's or changing their cruising profile, have been able to realise true value with relative ease. Yachts that are marketed this way are weathering the storm very well.

We are also seeing certain fallout from manufacturers who are no longer in business. Take Sweden Yachts for example; great product, but well maintained yachts have been more difficult to sell as buyers perceive there to be a bigger problem than there in reality should be over lack of original yard support. Because we have a substantial and experienced refit yard, we know this should not have a serious affect but sadly it has. However, take
Now that the squeeze is on, VAT is becoming a bigger issue Europe wide. The VAT deferment schemes that have been in operation based out of the Isle of Man and elsewhere have a stop on them and the idea that you can own a yacht through a VAT registered company and reclaim VAT on the costs of the yacht, whilst doing a couple of charters through friends is well and truly dead. In order to do this, you have to have a really proper business, chartering to third parties and the Revenue Authorities do not look kindly on people who play at the business to reduce costs, avoid VAT and get cheap yachting. Those that believe that by staying a step ahead of the game by employing a sharp accountant are seriously behind the curve as the Revenue Authorities are now taking a seriously close look at yachting.

We have seen that the various cross border lease arrangements that were in place in the 90s and beyond (and which we countenanced against at the time) have been proven to be illegal and we have dealt with a number of yacht sales this year where the paperwork supplied at the end of the lease period was not acceptable and VAT has had to be paid in full less any VAT that was paid (normally a nominal amount) as the account was closed. In addition, UK owners should be aware that whilst leasing is still in operation in France and Italy and this is perfectly legal, that UK yacht owners on these schemes may not bring their yachts back to the UK without attracting payment of VAT in full. You have again been warned!

Because of this changing landscape, it is the case that those EU owners purchasing non VAT paid yachts (either new, or brokerage yachts that have not accounted for VAT) where they plan to use them in the EU, really do not have an option other than to pay the VAT. Across the board from speedboat to superyacht, owners are taking a deep breath and paying the VAT so that the yacht is free from challenge in the EU. Of course the Malta leasing scheme is still in operation but this is probably the only current safe option open to EU yacht owners, but this is no reason to believe it will always be thus. Beware of advisers who tell you that there is a clever way around the VAT, there isn’t unless you are purchasing a yacht to use her commercially for charter and this is a proper business. You should check with your accountant carefully that you are not transgressing any benefit in kind rules if you are going to use her yourself privately. Mediterranean authorities are now spot boarding yachts asking to see log book entries, signed charter contracts and proof of prior payment of the charter fee.

Of course the discounting policy by the production yacht yards will continue to be a problem and we would urge owners of these yachts to be uber realistic when selling and to accept that if you bought well, give the new owner a good discount and write off a sensible percentage to the cost of ownership – the harder that you are on price, the more likely it is that you will be carrying your yacht for a longer time than necessary, including the costs that go with this. We have a real time example of an owner having purchased a 54' french production sailing yacht in 2008 at around £450,000, and that was with a favourable sterling exchange rate. The updated 53’ yacht from the same manufacturer new today is retailing at around £350,000, but the newer version is perceived to be less well built by the owner but not surprisingly he is finding it difficult to sell his two year old steed for anywhere near this price. Again, the moral is beware production line marques in poor times; values erode rapidly for a myriad of reasons.

In the super yacht sector, delivery times are shortening at many yards with only the very top continually announcing new contracts. This will in the medium term normalise prices in this sector and we will stop seeing the massive discounts on super yachts to attract a buyer as the market contracts.

We have noted that currency is important. But there is more; Windys, built in Norway are very well known in Scandinavia and as such demand from those strong currency countries for second hand Windys has been very high. Being a truly international brokerage house, therefore benefits our sellers as we have been able to cash-in on feeding frenzy of interest in the Windy brand.
All this means that we are seeing a premium price for yachts which have accounted for VAT on the brokerage market which is a new phenomenon. Up until now, it was assumed that over circa £800,000 a yacht would not be VAT paid and therefore VAT payment had no real value. This has now changed significantly. Of course in a market where there are so many non-EU buyers, there is a good chance that the yacht will be purchased by a non-EU national, but even here many non EU buyers prefer to buy a VAT paid yacht and keep a EU flag which enables them total freedom to sail in Europe without challenge. A note of caution to non-EU buyers – whilst a yacht retains her VAT paid status if her flag is changed to your national register, and if she is bought and sold in the EU, some EU Revenue Authorities are not recognising VAT paid status when the yacht then sells from you if the yacht has a non-EU flag to a third party in the EU. Therefore, if changing flag, it is wise to sell her only when the flag has been changed back to EU first.

There is another significant problem with VAT, with which we have been wrestling over the past year and which we predict is going to become more of a problem as time passes – proof of VAT payment…..Gone are the days when Customs Authorities would issue letters or certificates stating that a yacht was VAT paid. Because all EU Customs Authorities are acting on their own and are interpreting the rules differently, they have neither the time nor mandate to issue rulings that might be used in different member states. They have had problems where their rulings resulting in claims for compensation have been challenged in other member states so they will not repeat the exercise in the future.

Yachtmen across the board have been very casual about keeping the VAT receipts for their yachts and of course until recently, this wasn’t such a problem. This has now changed and it has become a major issue. In many cases the original VAT receipt issued may not show a VAT number or invoice number or may have some other sort of error or omission, particularly when the yacht was manufactured or distributed by a small company. We normally find that this being the case the company in question is now out of business or no longer holds any records (they are only obliged to keep them for 7 years). In other cases the owner has no VAT receipt and probably bought the yacht without one. Alternatively, he may have a copy which is accepted by the UK Revenue and Customs Authority but which may not be accepted by a finance house.

There are also swathes of other yachts which were manufactured prior to 1985 and if in the EU on 31 December 1993 at midnight are exempt of VAT under the terms of the relevant directive. Finding proof of their location all that time ago is now very, very difficult. The ports where they were moored no longer have records and over the mists of time, a lot of owners have lost whatever proof they ever had.

We are therefore faced with transacting a number of yachts where the VAT status is grey. The finance houses are now extremely tough on the proof that they require in order to lend and if they aren’t 110% happy with the VAT paperwork, the buyer will be asked to sign a disclaimer agreeing that he takes responsibility for the VAT status of the yacht, if there is a problem later on. It is fair to say, that at times they are tougher than the UK Revenue authorities who, take a common sense attitude to the situation and who do their best to make a horrible situation at least a little more bearable. However of course, they do not speak for the other member states’ Revenue Authorities.

Yacht purchasers are therefore being put in a situation where they are taking onboard an element of risk at purchase where the VAT status is grey. This is a shame because the evidence that is normally available shows that the yacht must have paid VAT, it is just that it is not in a form that is acceptable today. Often, in such cases, the UK Revenue Authorities will make a ruling stating that they have no interest in the yacht and this is extremely helpful to us.

In the UK it has always been the case that a yacht must account for VAT before she can be offered for sale. For many years we have managed this by paying the VAT ourselves and keeping the yacht on our balance sheet until sale, when we either return the VAT to the revenue on behalf of the purchaser or we export the yacht to a third country if she is selling to a non-EU national or is leaving the Community. Elsewhere in the EU there has been a much more relaxed approach to non-VAT paid yachts being offered for sale, on the basis that brokers would handle the necessary VAT payment or export on sale. This is now changing and we predict that non-VAT paid yachts will become less and less welcome in the EU over the next period. The various Revenue Authorities are tightening up seriously and lobbying for yachtsmen who would prefer to defer or avoid VAT is unlikely to have political appeal on any level whatsoever, in today’s straightened times.

Our advice, given all these problems is to maintain a common sense attitude to the subject but to be aware of the risks. At the moment the grey areas are remaining just that but if the various Revenue Authorities in the EU choose to devote more resource to collecting VAT on yachts, then expect to cough up. If you have a yacht on cross border lease (either paid off or still in process), take immediate steps to normalise the situation – this may well involve paying all the VAT. If you have your yacht in a VAT registered company – be absolutely sure that this is a proper commercial concern. If you have no VAT paperwork on your yacht, you will need to turn detective and see what can be found. If not, the price of your yacht will be compromised as her new owner will have to take onboard that risk. If you have only sketchy paperwork, see if this can be improved upon and act now – the manufacturer or distributor should be able to help, but may not hold the necessary records if you leave it until later and then you will have to discount the price of your yacht for your buyer to take on this element of risk.
The yachting industry landscape is changing and we are now starting to see clearly how the market is going to develop over the next few years:

Northern Europe – definitely an old market and one that is holding up relatively well with the obvious exception of Ireland. Yacht buyers are in the main experienced yachtsmen and the numbers of new entrants into the sport has dwindled. Although German buyers have kept themselves to themselves for the past decade or so, re-unification is now definitely behind it and export businesses there are thriving; German buyers will be prevalent in the Med area again in the next few years.

Southern Europe – this area is occupied by the PIGS (Portugal, Italy, Greece & Spain) and is not a zone that is particularly exciting. There are yachts to be bought here but not the bargains that people imagine, as the euro is still relatively strong. The stringent new rules relating to yacht ownership in Greece has certainly affected this market the worst.

Scandinavia – old market but with a new feel, their high value petro and Sovereign wealth currencies making yachts outside their home market great value. We see no reason why this will not continue; it is a boutique but vital market which will continue to drive forwards.

USA – an old market which declined rapidly as the recession hit. It is still soft but the market has improved hugely and the Annapolis show last Autumn was the most vibrant that it had been for many years. New yacht sales are still at a low level bearing in mind the physical land mass of the territory. On the second hand market, large numbers of mid range yachts were sold to Europe and elsewhere over the last 3 years, but we are seeing American buyers in Europe for the first time for a long time as the USA is short of mid range ocean cruising brokerage yachts on their own shores. The interesting thing here is to see the numbers of Americans enjoying sailing in the Mediterranean before either sailing across the Atlantic and home or selling again in Europe after their adventure is complete. We are very excited about the American market and regard it as an old market with a new edge to it.

New Zealand, Australia, Tasmania – a new market that is not that well developed. On the brokerage market the stock of yachts in this zone is not huge. Yachtsmen from this area are international and happy to travel to buy and to sail in other areas, very often not returning home with their yacht at all because of the stringent tax regime in some areas. We predict that this market will continue to grow and we have recently agreed a co-operation agreement with a well known broker in Australia, clearly the financially strongest nation of the three, to increase our reach in this important zone.

Brazil – a new market which is not at all developed and which is virtually impossible to sell into at the moment because of the massively high tax rate – around 100% for those Brazilian nationals and residents bringing yachts of non Brazilian manufacture into the country. In addition, there is no allowance for bringing in yachts that are not new. Brazil is growing at an astonishing rate and we don’t discount this as an important area for the future. In the meantime, Brazilians will be yachting in other areas of the world.

Asia – a new market which has not yet really started to be exploited. Until now the sailing ground of the ex-pat, there is an intellectual difficulty with yachting in Asia as traditionally, being close to the sea is seen as being very lower class for reasons that are obvious. This powerhouse of growth and opportunity will change hugely in the next few years and we regard this market as key to the future growth of the yachting industry as yachts are purchased in the Mediterranean and elsewhere for exporting home. The economic benefits of yachting at home will be seen very soon and the development will grow exponentially, although this may be stalled in the short term by new legislation making its way, as in China where the Peoples Congress, is to increase yacht useage taxes on yachts up to 2,000 yuan per metre. This annual tax would force yacht owners to pay 400 yuan (US$60) to 2,000 yuan (US$300) per metre for their yacht. Imported yachts already pay around 43% of the yacht’s value in import duties and consumption tax. This is a market that is already a significant exporter of yachts and yachting equipment and this trend will grow too, with some European and US manufacturers already building in the area.

India – another new market that is just starting to grow. This market will witness some great growth, like East Asia, and we will look forward to the brokerage market developing here; new yacht product that is brought to the market from this zone will give the old markets a whole new set of challenges. The new small Tata car is perhaps a 4 wheel example of what we can expect from the yacht market in due course.

The Middle East – a new market that has fallen on hard times with a rather big bump, but which will recover quickly and which will broaden from a main interest in motor yachts to yachts across the board. However, the extremes of temperature will always limit the sort of yachts that can be used here, but do expect the new yachtsmen from this sector to want to participate fully in the sport in other areas of the world, as going forward they will clearly have the funds to expend on their leisure. Temporarily, though, it is clearly politically unstable. »
Russia and its satellite states – a newish market that still has huge potential. Although the yachting industry realised its potential about 8 years ago, particularly as far as the super yacht industry was concerned, now that a middle class is developing, there is so much more to do. There are good cruising grounds available and a huge coastline to populate with yachting so this will continue to be a powerhouse for yachting over the next few years. Russia, having been part of high society Europe 100 years ago, is keen to participate at the highest level and sailors have been climbing the rankings with local support.

It is evident to us that marine businesses need to be nimble to survive in this new (even more international) world. It is important to embrace the new markets that are available to us as overall demand levels are down and with new technology, the cost of entry into these markets may not seem great, but caution is still the by-word; paperwork and provenance is prime, and Berthon have contacts and experience.

The Berthon forecast for 2011

As will be seen from our report, we believe that the market has changed fundamentally and that those who wait for things to return to normal will be waiting a very long time. This is a new world and one that is not without its challenges, and apart from currency, it is the opening up of new markets that must be key for any strategy moving forward.

2011 will not be an easy year for our industry. Stock levels have fallen and we believe that this year will be a year of transition as the recent changes to the economic landscape take their toll. Tax increases will have an affect; continued market volatility where we succumb to the see saw of some yachts selling at good prices, where others have to discount heavily or fail to sell at all. It is clear, though, that we will have to wait for a few years for the new markets to develop enough to replace the demand fall of the old markets.

For our home market, the need of the various Revenue Authorities in the EU to raise tax will mean that the situation with non-VAT paid yachts will incrementally be put under pressure. It is our advice that if you own a yacht where the VAT situation is not clear that you take steps to normalise this in 2011. If you need advice on this subject, please don’t hesitate to call on us.

Quality yachts will continue to have the edge. As the high production yacht builders exploit new markets and continue in their quest to increase production levels in order to make their business models work, their yachts will increasingly become a challenge to sell on the brokerage market and prices will be under pressure. The quality marques such as Windy have business models that do not rely on high volume turn over so they will continue to keep production at levels that are sustainable for both the new and second hand market. Therefore, quality yachts will eventually be relatively scarce on the brokerage market, and this will do much to peg and enhance residual value. But, finding a bargain basement quality brokerage yacht will not be easy.

We are all very used to currency movement but the tendency to wait for ‘normality’, ie rates of old, to be restored is futile as yachts are generally a depreciating asset, we have to work in the now. Waiting to sell can work on occasion, but more often than not, depreciation takes over where currency may have started to benefit. The currency shifts that we have seen are probably now part of the new world that we talk about. In the Scandinavian area for example, a strong petro currency has no reason to fall simply so that the status quo can be restored. We have to accept that the new levels may well be the way that things will stay. The US$ for so long the international currency for larger yachts now lacks the reliability that it once had, and we never thought we would be saying that! The euro has remained strong despite increased volatility in recent months as the financial state of the PIGS becomes apparent and pressure is put under the whole euro area. The Esterling is now showing the largest long position for years and although it will continue to fluctuate as the world shifts and turns, the economic austerity package should support it as the year progresses.

With a strong 2010, Berthon has moved into 2011 with increased confidence and knowledge about our market place. We look forward to working with you to achieve your yachting plans and are always on hand to give help and advice to you about all aspects of the sale and purchase process. We have had the same team in place now for a number of years and whilst we are aware too that we sail upon a voyage of continuous improvement in our service, there are now many miles beneath the Berthon keel in terms of experience and know how.

The march towards an ever more international market will be felt in 2011. Just as London is still a world centre for financial services, UK based, branded brokers such as Berthon will remain as pillars of propriety in an uncertain world. We are preparing to offer the Berthon service in an ever more international arena. We wish you fair winds and good sailing this year and look forward to being of service.
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