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The Superyacht

TRUTH • OPINION KNOWLEDGE • IDEAS AND EXPERT INDUSTRY ANALYSIS

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A Piece of the (Fr)action

The model of shared ownership, which has seen real success in comparative luxury markets such as the private jet industry, has had limited appeal in the superyacht arena. **Lulu Trask** reports how the current economic climate means that fractional programmes are now ripe for expansion, and how they are being adapted to make them more attractive and accessible to a potentially huge and diverse number of owners seeking a share in the luxury lifestyle that superyachting offers.

In the words of the owner of *Heavenly Daze*, fractional ownership is "not a club, it's a sort of business". But with so many existing superyacht owners having made their fortune as business moguls, why is it that this particular model has remained somewhat untouched? The Bermuda Triangle of the brokerage industry, fractional ownership, is a type of ownership people have been and are still tapping into, but it is something we as an industry know very little about, with much of what we do know accumulating in stereotypical and foregone conclusions. With the current financial climate ideally set up to support the growth of fractional programmes, to benefit fully from what is on offer, we need to look at its past.

The fractional model itself has seen enormous success in tangent industries, fractional jet ownership being one of those catering to a similar clientele. Chris Moody of Fractional Jet Europe, who has previously worked with fractional ownership company YachtPlus, highlighted a key difference between the superyacht and jet models that has played a role in the success of the latter: a yacht is "a house on a water" and a jet is a mode of transport. "Jets are more suited to it; they're more flexible and they're faster moving," said Moody. "People are less likely to use them at the same time, which is the problem with yachts; you can get a different usage pattern."

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At the time of writing, OceanStyle was offering Evolution Yachts' 33.7m 2005 motoryacht *Benita Blue* for charter at a high-season rate of €70,000 per week; Curvelle's syndicate ownership programme offers a one-seventh share in a brand new motoryacht of the same size for €1.43 million – not an enormous jump in price considering the move from charter client to owner. Or, for close to the same price as three weeks' charter on *Benita Blue*, one could purchase a one-tenth share in a yacht 10m smaller for $300,000 in Moncole Fractional Yachts' fleet and become a superyacht owner.

The success story has been written; fractional ownership should be a triumph, but why has it only seen limited success in the superyacht arena? "A number of fractional ownership schemes have been attempted over the last 30 years or so in all size sectors of the market – from the 30-35m category all the way up to over 80m – yet they have never really been successful," said Alev Karagulle, director of marketing and communications at Burgess.

"We experienced some companies pretending to offer fractional ownership in the past that have left a negative, unsettling image on the market, and as a result only a few companies could record a successful development," said Verena Stättner, head of marketing and sales at SmartYacht. Fraser Yachts broker James Nason, working on the SeaNet fractional ownership programme which has recently launched the first of its Benetti Delfino models for its fractional fleet, highlighted the past's general lack of focus: "The history of fractional ownership reflects more failures than successes, due in part to the combination of short-sighted business plans, misunderstanding the needs of the buyer, and a minimalist approach to management. Whenever a fractional programme failed there was a 'pile on' effect and bad publicity made it more difficult for the next programme to succeed."

As a result, fractional ownership today still remains somewhat of an enigma. "There are lots of different concepts on the market, leading to confusion and a lack of understanding," Stättner explained. Of the five fractional ownership companies we spoke to for this business report, the equity offered ranged widely. For Michael Costa of

SeaNet, "Four owners per boat is really the only way to do it, because if you go beyond four owners then it doesn't feel like your boat anymore." However, SeaNet's competitors' shares are much smaller, with Moncole Fractional Yachts offering a one-tenth share of certain vessels. Examples of the price range are: for a one-eighth share in a 41m yacht from the YachtPlus fleet comprising Foster & Partners' *Ocean Emerald, Ocean Pearl* and *Ocean Sapphire*, an owner would pay €1.5 million, whilst for a quarter share in the SeaNet fleet home to yachts of up to 29m, an owner will pay €1.735 million+, and for a one-tenth share in Moncole Fractional Yachts' 60m vessel, an owner will pay $1.4 million (€1.134 million).

manager Steve Last's background as an airline pilot. "If you have first choice in the summer, you'll have the last choice in the winter, and then we change the numbers around every year," he explained. "Other companies divide all the time up into equal chunks and attempt to find a way to assign them to the individuals who are the members of their group. We don't think that's very satisfactory for syndicate members, because basically the system is telling the owners when they're going to take their holidays. The Curvelle programme is based on equality of opportunity, so everybody has exactly the same opportunity overall to use the boat exactly when they want to."

Some disparity lies in the terminology of this niche sector of the market. Many companies have coined themselves under the fractional label, whereas Curvelle's syndicate ownership programme and YachtPlus have resisted the appellation.

Moreover, whilst many companies will offer a number of season-based set days for usage, the differences between them are significant. SmartYacht offers a three-season system; SeaNet owners have 55 days a year to choose from; YachtPlus offers one slot of nine nights in the high season, and two separate periods of six nights, which can be taken together, in the low season; meanwhile, Curvelle's owners choose what time they want on a rotating priority basis, a method taken and moulded from Curvelle share

Additionally, charter options vary extensively between companies. "If they don't want to use their weeks, they can either give them to friends or family, or they can put the boat up for charter," said Nason about the SeaNet scheme. But with Curvelle, owners are encouraged not to sign up for weeks they know they can't use, so giving other owners more flexibility, following which Curvelle puts the boat up for charter, and the charter revenue is divided between owners by the number of weeks they have made available for charter. "Suppose

PROFILES OF FRACTIONAL OWNERSHIP COMPANIES

YachtPlus
Year founded: 2007
Equity offered: One eighth
Equity price: €1.5 million
Number of yachts in fractional fleet: Three
Size range of fleet: All yachts in fleet are 41m

Curvelle Syndicate Ownership
Year founded: 2004
Equity offered: One seventh
Equity price: €1.43 million for 33.7m
Number of yachts in fractional fleet: Two (first in 2013, second in 2015)
Size range of fleet: 33.7-42m

Moncole Fractional Yachts
Year founded: 2000
Equity offered: One tenth
Equity price: $300,000-$1.4 million
Number of yachts in fractional fleet: 50+
Size range of fleet: 24-60m

SmartYacht
Year founded: 2009
Equity offered: One quarter smallest available
Equity price: €200,000-€350,000 for one quarter share
Number of yachts in fractional fleet: Three
Size range of fleet: 20-24m

SeaNet
Year founded: 2004
Equity offered: One quarter
Equity price: €1.735 million+
Number of yachts in fractional fleet: Five (first has been completed, four in build)
Size range of fleet: 20-29m

Mr Smith contributes three weeks to the charter pot, Mr Jones contributes two weeks, and Mr Johnson doesn't contribute any. Whatever income the company receives from this, three fifths goes to Mr Smith, two fifths to Mr Jones, and none to Mr Johnson, because he didn't contribute anything," said Last. "That way we get away from the situation where one person might be lucky and get €150,000 for his week, and another person doesn't get anything at all."

Some disparity lies in the terminology of this niche sector of the market. Many companies have coined themselves under the fractional label, whereas Curvelle's syndicate ownership programme and YachtPlus have resisted the appellation. "YachtPlus has become more flexible and tailored the programme to the owners of each specific yacht, which is why 'syndicate' is maybe a better word than 'fractional'. It now reflects the wishes of the owners of each yacht rather than being a set, fixed formula," said chairman of YachtPlus John Hare, whose opinion was shared by Last: "Members of a pure syndicate hold both equity and control of the asset. The key difference is 'who's in charge?' and who decides what the owners' rights and obligations are. In a fractional scheme, it's the promoting organisation. In a syndicate, it's the owners themselves."

And who is the target audience for this mixture of programmes? Answers ranged from "open-minded, wealthy people" to "anybody who wants to spend time on the water; existing owners who want to get rid of the hassles of ownership, or who do go on yachts but generally charter, or the people who've had no experience of yachting." This range of potential audiences to tap into demonstrates the enormous promise of these types of programmes, but the wide scope available has led to some scepticism within our industry.

> Making the most of the new space for these programmes in our industry, the fractional sector is moving forward, with companies already discussing their own evolution.

However, the combination of longevity and the economy has proven the viability of what is on offer. Moncole Fractional Yachts, for example, was founded in 2000, and 12 years later the company has a fractional fleet of over 50 yachts, with approximately 250 fractional shares having been purchased; Curvelle and SeaNet, slightly younger companies having launched in 2004, have seen their way through the recession and today are both in the process of developing and launching new models for their fractional fleets. Moreover, YachtPlus and SmartYacht launched in the worst of the recession, in 2007 and 2009 respectively, both of which continue to boast success, and this from just a miniscule percentage of this sector's potential audience.

So, rather than scanning information readily available, finding divergences and immediately disregarding this sector, we as an industry must work harder to understand the complex models developed by this niche field, and in doing so confusion will transmute into choice; it is those who have done exactly this who have discovered the benefits of fractional and syndicate ownership. Diversification is a sure sign of a

collective desire to succeed, to provide potential fractional or syndicate owners with the best deal on the market. The superyacht industry is one of individual passion; the extensive opportunities and choices offered by these companies work only to increase and improve the individual's choice in a sector that in the past has been presumed devoid of real enthusiasm.

During a time where financially it has been necessary for some businesses to move more slowly, fractional ownership has done the opposite. Making the most of the new space for these programmes in our industry, the fractional sector is moving forward, with companies already discussing their own evolution. Curvelle, whose 33.7m Quaranta model is completing construction, is looking to its future success, having nearly completed the design of a 42m version, with an even larger model in the very early stages of development.

Meanwhile, YachtPlus is adapting to the market. "I'm working on the next version of YachtPlus at the moment," said Hare. "What is required is new entrants to the market as the industry is feeding off the same people. The key is how you attract a whole bunch of people who have never even thought of going on a yacht. At the moment, only about five per cent of the people who can afford it go on yachts, so there's still 95 per cent that we can tap into, but we have to ask, why is that 95 per cent not bothering?"

> As an industry we should not be threatened by the current financial climate, but instead should be taking advantage of the new ground it has made available for this niche yet welcoming set of fractional and syndicate ownership programmes.

"Partly it's because the industry promotes itself as only for billionaires," continued Hare. "Partly it's because the industry is an incredibly niche market with the existing providers tending to be a 'closed shop' – if you're not into yachting, you will never have heard of the brands. And partly it's because there's a group of people who've simply not even thought of it. My view is that the existing industry is not set up to attract the 95 per cent. It needs a different approach."

Not satisfied with just moving forward, fractional models are also expanding their horizons across the globe, with SeaNet looking also towards the industry's emerging markets. "The real opportunity now is in Europe with the current financial concerns, as this fractional format allows for the enjoyment of these great yachts in a fiscal-savvy way, but I also think your developing markets are where a lot of the potential customers will come from," Costa explained. "You have China and the Asia Pacific rim, and you also have places like India."

As an industry we should not be threatened by the current financial climate, but instead should be taking advantage of the new ground it has made available for this niche yet welcoming set of fractional and syndicate ownership programmes. The same person who 10 years ago could have entered the superyacht arena worry-free may today be resistant. However, the plethora of fractional models available lower entry barriers and provide an open gateway for a new set of superyacht owners, via a programme tailored to their specific needs. With these programmes evolving daily, it is up to us as an industry to do our research and look at these offerings as a viable, for some even preferable, form of ownership. In the words of Costa, "Now is the time." ■

Images: Benetti, Curvelle & Mike Jones

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