What is the Status of the Yacht Market?

By Michael Schwartz

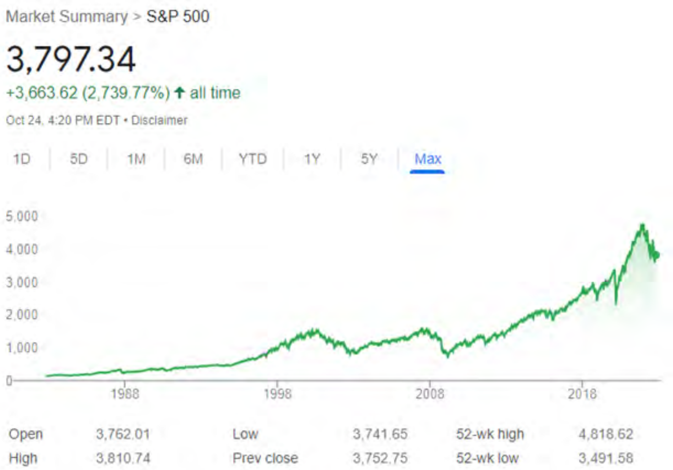
Yacht brokers get this question all the time. However, it is never a real question; it is just rhetorical, a launching point to proudly pronounce either why, as a seller, yacht valuations are at Utopian Highs or why, as a buyer, the market is steaming toward another Great Depression. As with so many things, the truth lies somewhere in between. In this case, the answer is: it depends.

Multiple factors impact yacht values. The basic factors of determining a yacht's value have stayed the same. Factors like year, make, model, hours, options, service history, and a vessel's overall perceived condition can be weighed against sold comparables, current listing comparables, depreciated valuation analysis, and third party sites like NADA. A rigorous evaluation of these factors helps to develop an extremely accurate picture of where any vessel can and should trade in the secondary market. Performing this type of analysis before taking on any new listing allows a yacht broker to provide a suggested market value and a suggested list price with confidence. This kind of research and evaluation not only demonstrates capability, it also prevents yacht brokers from setting expectations that could prove impossible to meet. On the seller's side, this means setting a realistic listing value and providing a relevant, market-driven pricing strategy. On the buyer's side, this means setting a realistic buying price range and providing a competent, level-headed negotiating strategy.

Too many yacht brokers over the last couple of years have advised their buyers to blindly offer full asking price, even if they knew that underlying yacht valuations, in many cases, did not support this stance. If you wanted to play, you had to pay. Unfortunately, as yachts have continued to trade at high prices over the last few years, sold comparables generated from these sales have given the appearance of supporting elevated valuations, like the tail wagging the dog. The reverse of this, of course, will play out when the market softens.

A number of macroeconomic factors push and pull yacht valuations, and your situation depends on where you reside in the market. Some of the more significant macroeconomic factors that shape our view include:

The Stock Market: The stock market has been on a tear since the S&P 500 bottomed in March of 2009. For thirteen years, the stock market barely stopped to take a breath on its way up. The chart looks like a hockey stick. Many people considered themselves geniuses, as their brokerage and retirement portfolios swelled in value. Stock market values did for yacht buyers what a few beers do for average guys at the bar: provide liquid courage. With time, though, it goes away. Since the beginning of this year, I have experienced firsthand how new-build customers have had to rethink their build timing due to what they were experiencing in their portfolio. In our view: the current trajectory of the stock market is an overall **negative** to the yacht market.



Inflation: Inflation is a thief. It erodes the value of your savings while simultaneously driving up the prices of everyday items. Inflation countermeasures also generally result in substantial increases in your borrowing costs. New yacht buyers who do not wish to cash out their investment accounts at current market levels have to finance, instead. To make matters worse, payments on a loan taken today are substantially higher than those of a loan taken even a year ago. In addition, the cost of fuel weighs heavily into the decision to embark upon the Great Loop. Inflation is not all bad, though. Inflation drives asset prices higher: good for those who have certain assets, bad for those who want certain assets. Getting good intel on real inflation is difficult, making it all the more challenging to form accurate positions and advocate sensible decisions. The political environment also hinders matters, giving us information that often merely insults our intelligence, information that simply does not jibe with what we see and experience every day. It hurts when we go to Whole Check for groceries; what was already expensive is now totally insane. I recently did a happy dance when regular fuel dropped under $4 for a hot minute here in the Chicago area, even though that is more than double the cost of gas from not so long ago. Visiting the fuel dock in the marina has been a genuine test of my love for this lifestyle. I do love you, of course, but I am not happy with you right now. In our view: inflation is an overall **neutral** effect on the yacht market.

The Broader Economy: The most expensive boat you will ever get is a “free” one. Right now you are probably laughing, crying, or scratching your head. You are laughing if you know someone who got a free boat, crying if you have ever had a free boat, or scratching your head if you do not understand the reference. Free boats are usually bottomless pits of frustration and expenses. This involves the current economy: free is never truly free. All of the so-called free money doled out over the last few years ultimately has to be paid for (remember our discussion about Inflation?). This free money has supported consumer spending–including spending on assets that are, by their very nature, “socially distanced.” Sales of ATVs, motorhomes, and boats of all kinds skyrocketed, but now that the free money appears to have stopped, a well-founded fear is growing, a fear that means retail sales are soon to be negatively impacted. Retail sales drive profitability, and expectations for profit or loss drive stock values (remember our discussion about the Stock Market?). Retail sales similarly drive profitability for most closely held businesses. Small businesses represent the majority of wealth creation in the US, and business owners represent a large portion of our client base. When business is not going well, you had better believe that business owners are thinking twice about giving in to their two-foot-itis. In our view: the current state of the economy is an overall **negative** to the yacht market.

The Covid Effect: Regardless of politics, the Covid Effect has been fantastic for yacht sales. While Covid Effect buyers had a small impact on the tug and trawler market, they absolutely exploded the market for express cruisers, luxury motor yachts, and wakeboats. Covid Effect buyers were similar to the home buyers who were late to the party in 2007. Luckily, we do not appear to have the same systemic leverage issues–or fraud–in the systems that existed then. We are left with, however, a certain portion of the yacht market that will experience a reckoning, with many current owners who are already underwater on their yachts (no pun intended). Vessels will hit the market, for those who can afford to sell and who decided that boating was not for them after all. Some will be unable to afford their purchases, and this situation will manifest itself in various ways. We have already seen an increasing number of vessels sinking in harbors, along with fires at boat yards. These may or may not be coincidences, of course, but these incidents drive up insurance rates. Thankfully, the tug and trawler market largely, though not entirely, avoided these buyers. One upside to the Covid Effect for the tug and trawler market: bringing a seize-the-day mentality. This newfound motivation is driving many people–currently with or without boats–to think seriously about doing the Great Loop, a newfound sense of conviction and resolve to achieve something memorable, a desire to check some boxes on those bucket-list adventures that had only ever been a whimsical "someday." That "someday" is now. Carpe Diem. YOLO. Let's Roll. The bad Covid Effect buyers are likely gone, but the good ones keep on showing up. In our view: the Covid Effect is **extremely negative** for express cruisers, motor yachts, and wakeboats but is **extremely positive** for tugs and trawlers.

Remote Work: One of the greatest things to come out of Covid was the forced acceptance of remote work, with the notable exception of big business. Big business hates it. Aside from ditching the coat and tie (and for some even their pants), leaving the cube-farm has been life changing for so many people. They live aboard their yachts, work from their yachts, and travel with their yachts, all while still being productive, not to mention remaining gainfully employed. These new circumstances have had a substantial influence on helping to drive down the average age of those on the Great Loop, and few are likely to mind a bit more congestion in popular anchorages and marinas if the boaters surrounding them are more intriguing. The days of "only the salty sailor" doing the Great Loop are long gone, and we anticipate further diversification of ethnicity and age, as well, and this can only prove to be a positive thing. For boaters wanting to experience the Great Loop before retirement or for boaters who wish to avoid dipping into their savings while traversing the Great Loop, the ability to work remotely is an absolute game-changer. In our view: remote work is an overall **positive** for the yacht market and **extremely positive** for tugs and trawlers.

Technology Advancements: Remote work could not support the yacht market, especially the tugs and trawlers segment, without some of the recent advancements in technology, specifically in regard to connectivity and interfacing. Modern cellular service, along with the latest cellular devices, gives us the ability to be present almost anywhere in the world at any time. Apps like Facetime and Zoom make it easy to get the job done, even from some of the most remote places. An iPad and a Navionics subscription often substitute for outdated navigation equipment. Data streaming over a high-speed, high-capacity mobile network can be as good as (or perhaps even better than) being plugged in at the office. For the most remote locations, where cellular service is not as stable or perhaps even accessible (let alone as a substitute for the spotty or nonexistent wifi of many harbors), Starlink, with its Portability feature, has finally arrived. If running your generator in a beautiful anchorage somehow makes you cringe, power your systems off of batteries. Lithium iron phosphate (LiFePO4) has proven to be an effective electric power storage solution, especially when paired with solar power generation, and just this August ABYC ratified E-13, its first lithium battery standard. In our view: technology advancements are an overall

positive for the yacht market and **extremely positive** for tugs and trawlers.

So we come back to our original question: What is the status of the yacht market? It depends, but based on our analysis of the data currently at hand, the market is bad for express cruisers, luxury motor yachts, and wakeboats, but the market is good for tugs and trawlers.

About the Author: Michael Schwartz is Managing Director at Schwartz & Co. Yacht Sales. Schwartz & Co. Yacht Sales is an AGLCA Lieutenant Plus Sponsor, exclusive representative throughout the Great Lakes Region for American Tug and Van der Heijden Yachts, and is the premier yacht broker of tugs and trawlers in the Great Lakes Region. To learn more, visit schwartzyachts.com.