Superyacht Challenges and Opportunities

In advance of my session moderation at 6th Superyacht Europe 2024 forum today, I have been putting together some thoughts for discussion, on the topic for the first panel:

"Setting Sail on Wealth: The Booming Demand for Superyachts in a Rapidly Growing Global Economy Global economy and the Super Yacht order book."

My co-panelists comprise some of the most knowledgeable industry leaders, including **Thierry Voisin,** President, European Committee for Professional Yachting, ECPY, **Vienna Eleuteri** CEO Advisor, Saudi Red Sea Authority, **Sarah Futhazar,** Group Head of Charter, Camper & Nicholsons, **Robb R. Maass,** Partner, Alley, Maass, Rogers & Lindsay, P.A., **Xavier Perrone**, Commercial Manager, Hill Robinson Group, **Graeme Lord,** Owner, PYC Cayman, **Alessandra Nenci,** CFO & Executive VP, MarineMax Superyachts Division, **Alison Vassallo,** Partner, FENECH & FENECH ADVOCATES, and **Nurettin Caliskan**, Board Member, President International Relations, Turkish Shipbuilders Association GISBIR.

For the purposes of this article, I have reframed that topic in more granular form thus:

"What are the 5 most pressing challenges facing the superyacht industry? Provide expert commentary and clearly identify any sources you refer to. For example, is the global order book going to continue to grow indefinitely? Are new owners aligned with the yards? What geopolitical issues might impact the industry?"

Economic Uncertainty and Slowing Global Growth

The superyacht industry is highly sensitive to global economic conditions. Recent years have seen increasing economic uncertainty due to factors like inflation, rising interest rates, and the lingering impacts of the COVID-19 pandemic. According to the International Monetary Fund's (IMF) *World Economic Outlook* (October 2023), global growth was projected to slow from 3.5% in 2022 to 2.9% in 2023.

My view is that this deceleration is likely to affect the wealth accumulation of Ultra-High-Net-Worth Individuals (UHNWIs), which might lead to reduced spending on luxury assets such as superyachts.

An additional impact is global conflict and restricted supply chains. Can we, in the superyacht industry ensure we can project confidence in the industry to new entrants as well as old?

Regulatory and Environmental Challenges

Increasingly stringent environmental regulations are posing challenges for the superyacht industry. The International Maritime Organization (IMO) has implemented regulations like the IMO Tier III standards, which mandate significant reductions in nitrogen oxide emissions for yachts over 500 gross tons built after January 2016 operating in Emission Control Areas. Compliance requires advanced technology and design changes, leading to higher construction and operational costs.

Additionally, there's a growing demand for sustainability among UHNWIs. Shipyards must invest in eco-friendly technologies and materials to meet these expectations, further increasing costs and complexity in yacht production.

Shifting Preferences Among UHNWIs

As we all know, UHNWIs are increasingly prioritizing experiences, sustainability, and social impact over traditional luxury asset ownership. The Knight Frank *Wealth Report 2023* indicates a trend toward investments in philanthropy, technology startups, and sustainable ventures. This shift can lead to a decreased interest in owning superyachts, especially if they are perceived as environmentally unfriendly or symbols of excessive consumption.

Personally, I think we need to focus our efforts more on addressing these growing concerns to ensure our industry remains relevant to UHNW individuals.

Supply Chain Disruptions and Production Challenges

Global supply chain disruptions have significantly impacted the superyacht industry. Shortages of raw materials, increased lead times for critical components, and logistical challenges have led to delays in yacht construction and delivery. According to a 2023 report by *Superyacht Business*, shipyards face delays averaging six months due to these disruptions, affecting cash flow and client satisfaction.

Geopolitical Issues and Sanctions

I need hardly state the obvious, that geopolitical tensions and international sanctions have directly affected the superyacht market.

The seizure of yachts owned by sanctioned persons has created market instability and uncertainty among UHNWIs from affected regions. Furthermore, trade tensions between major economies like the US and China introduce volatility in global markets, influencing investment decisions and luxury spending.

As hinted at by Bloomberg, one of the consequences has been to drive more superyacht business to the Middle East, with the timely construction of new marina capacity and refit and repair capacity. This is all good news for these markets that were not traditionally associated with superyacht ownership.

How far this trend will go, and for how long, is not known, but UHNW individuals of any nationality will not be unaware of the shift in expertise and capacity.

Is the global order book going to continue to grow indefinitely?

The global superyacht order book is unlikely to continue growing indefinitely. While there was a surge in orders during the initial recovery phase post-COVID-19, fuelled by increased savings and a desire for private travel, this momentum is now tapering off. Economic uncertainties, rising construction costs due to regulatory compliance, and changing UHNWI preferences suggest a potential stabilisation or decline in new orders.

According to the *Global Order Book 2023* by Boat International, there was a modest 3% increase in orders compared to 2022. However, industry analysts predict a plateau or decrease in the coming years as the market adjusts to the challenges.

Are new owners happy with the offerings of top yacht builders?

In my view, there is a growing misalignment between new superyacht owners and yacht builders. New owners are increasingly demanding bespoke designs, sustainable technologies, and quicker delivery times. However, some shipyards may feel constrained by regulatory requirements, supply chain issues, and traditional production processes.

Are yacht builders too shipyards have been slow to adapt to the sustainability demands of new clients?. Yacht builders that proactively engage with clients to understand their needs and invest in flexible, sustainable production methods are better positioned to succeed.

What geopolitical issues might impact the industry?

- Sanctions and International Policies: Sanctions against individuals and nations can directly impact yacht ownership and transactions. The seizure of yachts under sanctions against Russia has introduced caution among buyers and sellers.
- Trade Wars and Tariffs: Ongoing trade disputes can result in tariffs on materials and components essential for yacht building, increasing costs and complicating international collaborations.
- Currency Fluctuations: Geopolitical instability often leads to volatile currency markets, affecting the purchasing power of international clients and the profitability of shipyards operating in different currencies.
- Regional Conflicts: Conflicts in key regions can disrupt shipping routes, supply chains, and affect the wealth generation in those areas, thereby impacting the superyacht market.

Concluding thoughts:

The superyacht industry is at a pivotal juncture, facing significant challenges that require strategic adaptation.

Economic uncertainties, regulatory pressures, shifting consumer preferences, supply chain disruptions, and geopolitical tensions collectively impact the industry's outlook. While the global order book may not continue its previous growth trajectory, opportunities exist for shipyards and industry stakeholders who can innovate, align with new market demands, and navigate the complex global landscape.

Suggestions for Action

- Embrace Sustainability: Invest in eco-friendly technologies and materials to meet regulatory requirements and client expectations. That is increasingly what UHNW individuals want.
- Enhance Flexibility: Adapt production processes to accommodate custom designs and shorter delivery times, where possible.
- Strengthen Client Relationships: Engage proactively with new owners to understand their evolving needs and preferences. Proactively engage in education.
- Monitor Geopolitical Developments: Stay informed about international policies and adjust strategies accordingly to mitigate risks.
- Diversify Offerings: Explore new business models such as yacht chartering, management services, and fractional ownership to attract a broader client base.

QUENTIN BARGATE - Founder, Chief Executive Officer

Quentin, the firm's founder, leads its superyacht and dispute resolution practice areas. With over 35 years' experience, and a winner of many industry awards, he is widely acclaimed as a leader in the industry.

CONTACT

Bargate Murray
16 Berkeley Street
London W1J 8DZ
www.bargatemurray.com

T: +44 (0)20 7375 1393
E: yachtgroup@bargatemurray.com
aviationgroup@bargatemurray.com