Yacht builders sail on despite economy

The super-rich are numerous, and their numbers are growing

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Fuel prices remain sky high and credit markets tight, but the super-rich are still lining up to pay tens of millions of dollars for megayachts.

The well-heeled buyers of the floating mansions are increasingly coming from emerging economies - in the Middle East, Russia and South America. The source of their wealth runs the gamut - technology, venture capitalism, new industries. And, yes, oil.

"There are a lot of people with new wealth looking for relaxation and enjoyment," said John Dane III, president of privately owned Trinity Yachts, the largest U.S. builder.

These days, the biggest problem at Trinity's shipbuilding yards is having enough workers to handle the 24 custom contracts the company has for luxury vessels.

"Nobody is buying these yachts because they need them," said William S. Smith III, Trinity's vice president. "They're buying them because they want them."

Another builder, YCO Deuxil PLC, a London-based company, has nine yachts under construction - more than double the number for all of last year.

YCO Deuxil, which also provides services for superyacht owners, saw its profits more than double last year.

According to Camper & Nicholsons International, a broker of yacht sales and charter contracts, about 3,800 yachts over 80 feet in length are in service around the world. About 1,800 of them have been built since 2000. The study predicts that by 2010, there will be 5,000 such yachts on the water.

"There's not enough supply," said Ed Slack, editor of the trade magazine International Boat Industry. "It takes two years to build some of these yachts, and the demand hasn't slowed down."
So far, Trinity's largest vessel has been a 192-foot yacht that would carry a replacement price of $60 million to $65 million. The company is working on a 242-footer that will have a price tag in excess of $90 million.

In the Netherlands, the First Export Association of Dutch Shipbuilding, or Feadship, can build a 128-footer for about $40 million. A 300-foot megayacht typically will cost about $150 million.

Francois van Well, chief executive of Feadship America, said about 50 percent of his company's business comes from the United States, but more buyers are now coming from the rest of the world.

And it is not old family money.

"Most of our clients have earned their wealth in one generation," van Well said.

Trinity, which once had an almost exclusive U.S. buyer base, is seeing more overseas buyers who have recently come into substantial money, Dane and Smith said.

At the Global Superyacht Forum, a meeting of yacht owners in Amsterdam in November, Steven Rattner, manager of DLJ Merchant Banking Partners, said there are 90,000 families in the world with a net worth of more than $360 million each.

That number is expected to increase over the next three years by 10 percent per year.

Because most of the new buyers are still active in business, they have limited time each year for their yachts. Many also have vacation homes overseas. And they know about investments.

Enter the charter business, especially in the Mediterranean, where, according to Dane, a 164-foot yacht can easily rent for $350,000 per week.

By putting their boats up for charter 10 weeks a year, owners can pay operating expenses for a full year, he said.

"The charter market has allowed people to buy boats a little larger than they would have wanted to invest in had they not seen it as a source of revenue to help defray their operating costs," Dane said.

And these vessels do not depreciate in price.

Dane said the first owner of every Trinity-built yacht who decided later to sell got more for it than the purchase price. Three were sold by the original buyer before they were delivered.

"We have one owner and this is his fourth boat, and he's never taken delivery," Dane said.

"Rich people don't want to wait on a boat, and they'll pay a premium. This owner has taken that premium and moved to the back of the line."

Trinity has about 900 employees at its yards in Gulfport, Miss., and in New Orleans, where the company's yard was used to build the Higgins boats - the famed landing craft that carried Allied troops ashore in World War II. Feadship has three European yards that keep 1,200 workers busy turning out an
average of five yachts a year.

Dane said he could use more workers to keep up with the orders.

When someone is ready to buy, a long delay could mean "they look for another yard," he said.