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COST OF YACHT OWNERSHIP

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COST OF YACHT OWNERSHIP



Owning a superyacht is a status symbol available only to the world's wealthiest individuals and corporations. Although there is no strict definition, the Red Ensign Group Yacht Code is applicable to "motor or sailing vessels of 24 meters in load line length and over...and which, at the time, is in commercial use for sport or pleasure and carries no cargo and no more than 12 passengers." There are currently just over 10,000 superyachts in the world with around 200-250 new builds delivered each year. The vast majority are motor yachts with sailing yachts counting for less than 20% of the total. The world's largest private vessel, Khalifa bin Zayed Al Nahyan's 180m (590-foot) Azzam, cost \$600 million to build when it was delivered in 2013. Eight of the ten most expensive luxury acquisitions of all time were superyachts.

PURCHASING COSTS

Buying a new or used superyacht will most likely cost the buyer several million dollars. Pricing varies widely based on the yacht size, age, and other factors such as builder, guest capacity, speed, range, and more. The market is worldwide and extensive. Any potential buyer would be well-advised to engage a professional, certified broker to guide them in the selection of their dream yacht and through the myriad of complications in making the purchase. A future article in this series will address the purchase process.

1. Financing the Purchase

About 10% of superyacht purchases are paid-in-full immediately and the other 90% are financed in one form or another. While most superyacht owners can probably afford to purchase the vessel outright, there are many who opt to finance in order to keep their capital free for other investments. Whether construction financing, purchase financing or refinancing, the types of security will vary depending on the yacht.

In years past, lending could take some time, but with specialized marine lenders, the process is much simpler and more streamlined. Amortizations can be up to 20 years, making the payments substantially palatable. Additionally, lenders are open to foreign registries and single-entity LLCs along with personal guarantees. Superyacht clients can secure their loan just with the collateral itself as their profile supports or should additional collateral be needed; the lenders sometimes look for a banking relationship or cross-collateralization.

2. Immediate Post-Purchase Costs

Depending on the inventory and other items included in the purchase, the buyer should be prepared for some amount of costs immediately following the purchase. Aside from attorney fees, tonnage taxes, registration fees, and other administrative items, any changes to interior furnishings or art installed onboard will incur one-off costs, as will the recruitment of crew and the purchase of tenders and water toys, if required.

OPERATING COSTS

In years past, owners and their brokers would work on 10% of the purchase price as an estimate of annual operating costs, but the vast range of yacht size, operating location, and usage profile makes this approach less useful without giving the question more thought. Building a budget for a yacht requires consideration of the following elements:

- **Crew** – Salary, payroll taxes, recruitment fees, uniform, health insurance, food, and travel for vacation and repatriation are all crew-related costs. A good guide for salary costs is published by *Dockwalk* magazine every year based on an extensive survey of the crew and placement agents. Using their most recent article as a guide, a crew of 8 full-time crew on a 150-foot yacht will cost over \$650,000 per year in salary alone.
- **Dockage** – Unless the owner plans to spend the year at anchor, then keeping the yacht in a marina incurs a significant cost. Dockage is normally sold per foot of the yacht's full length and per night, although contract rates for longer periods may be available. High-quality marinas in peak seasons are currently running in the \$6-8 per foot per night range. Electricity, fresh water, and waste removal are all additional costs to be considered.
- **Fuel** – The captain or engineer should be able to provide the fuel consumption per hour at any given speed, so if a yacht owner knows roughly how much he wants the boat to travel, then he can estimate the total fuel consumption and budget the fuel cost. There is also the fuel cost for generators, particularly at anchor. A typical 150-foot motor yacht cruising at 12 knots will consume in the region of 150 U.S. gallons per hour. At today's fuel prices, that's going to be close to \$500 per hour. 500 hours per year will give us the main engine fuel budget of around \$250,000. To this, we must also add the generators' fuel consumption at anchor plus any additional cost for tenders.
- **Communications** – Everyone onboard, crew and guests, want to remain connected to their social media, streaming services, and email. The technology available in this area moves fast and with 5G coming online, near-shore costs will likely come down. For those who want broadband speed while offshore, costs are high and depend on the upload/download speeds required. Start with an estimate of \$4-5,000 per month and work from there. Additional communications costs include satellite TV subscriptions, crew cell phone costs, mail, freight, and more.
- **Maintenance, Consumables, and Other Operating Costs** – Having considered crew payroll, marina costs, fuel, and internet, the budget will start to materialize. One must take all other costs into account, such as hull insurance, liability insurance, maintenance and consumables, warehousing, safety and survey costs, upkeep of the navigation outfit, computing support, car rental, and more.

INITIAL EXPENSE BUDGET DEVELOPMENT, M/Y 160'

The following table represents a real example of an annual yacht operations budget for a typical large yacht around 160 feet in overall length with 9 full time crew.

CREW

CATEGORY	NOTES	ANNUAL COST
Salaries	Crew payroll costs and charges, taken from <i>Dockwalk</i> report	\$810,000
Payroll Taxes	Depends on corporate set-up	\$0
Recruitment Fees	Agency fees for crew recruitment	\$22,000
Travel & Accommodation	Travel cost for crew vacation, new crew joining	\$10,000
Uniforms	Costs for maintenance of crew uniform	\$10,000
Training & Certification	Upkeep of crew qualifications and discretionary training	\$5,000
Food & Beverages	Crew food - usually budgeted at \$20 per day per person	\$65,700
Medical Expenses	Incidental costs for medical consumables, etc.	\$2,500
Occasional Workers & Delivery Crew	Additional manpower for cleaning/maintenance & crossings	\$25,000
Entertainment	Owner's discretion	\$0
CREW TOTAL		\$950,200

COMMUNICATIONS

CATEGORY	NOTES	ANNUAL COST
Phone & Cellular	Captain & crew cell phones	\$3,600
Data	Wi-Fi costs at marina, other data charges	\$15,000
Satellite TV	Contract cost for TV service to the boat	\$10,000
Satcom	Airtime contract for VSAT broadband with one VoiP line	\$85,000
COMMUNICATIONS TOTAL		\$113,600

OPERATIONS

CATEGORY	NOTES	ANNUAL COST
Agency	Port agent fee	\$8,000
Audio Visual	Maintenance for AVIT system	\$10,000
Auto	Rental car for crew when required	\$8,000
Bridge	Charts and publications for desired cruising area, position reporting, flags, weather routing, etc.	\$10,000
Computer	Consumables & support of yacht's computing systems	\$2,000
Deck	Spares & consumables for maintenance of deck equipment	\$60,000
Dock Express/Ship Transport	If required for large tenders/main yacht	\$0
Engineering	Spares & consumables for maintenance of engines and machinery	\$100,000
Fuels & Lubricants	Fuel & lub oil costs for yacht and tenders	\$237,500
Galley	Spares & consumables for maintenance & cleaning of galley	\$4,000
Annual Haul Out	Maintenance haul - clean bottom, etc.	\$75,000
Interior	Spares & consumables for maintenance & cleaning of interior	\$20,000
Launches, Tenders & Toys	Spares & consumables for maintenance & cleaning of tenders & toys	\$10,000
Mail & Freight	Logistics costs	\$2,000
Office	Office supplies	\$2,000
Ports, Dockage & Customs	Costs for marina dockage, utilities, customs formalities	\$280,000
Safety & Medical	Annual services to safety equipment, Remote Medical Assistance	\$25,000
Security	Cost of third-party security in port etc.	\$0
Survey & Certification	Classification/Flag state surveys & crew documentation	\$12,000
Warehousing & Storage	Storage costs	\$5,000
OPERATIONS TOTAL		\$870,500

INSURANCE

CATEGORY	NOTES	ANNUAL COST
Hull & Machinery	Property & casualty cover, depends on value and cruising plan	\$80,000
Protection & Indemnity	Liability cover	\$12,000
Crew Health Insurance	Medical insurance for crew	\$24,840
INSURANCE TOTAL		\$870,500

ADMINISTRATIVE

CATEGORY	NOTES	ANNUAL COST
Professional Fees	Legal fees if required, corporate ownership costs	\$6,000
Bank Charges	Bank charges for wire/ACH fees, bank analysis charges, FX fees on credit cards, etc.	\$3,600
Management Fees	To be quoted	\$120,000
Management Travel	Based on three visits to the yacht per year	\$6,000
ADMINISTRATIVE TOTAL		\$135,600

GRAND TOTAL		\$2,186,740
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OFFSETTING EXPENSES WITH CHARTER REVENUE

If the yacht is compliant with the applicable safety codes, then chartering to third parties can be a way of offsetting some of the costs of ownership. Charter rates are normally quoted per week and vary widely based on the yacht's age, location, facilities, and even crew reputation. For example, the 160-foot yacht for which the operations budget above was developed will charter at an estimated \$200,000 per week plus expenses, which are at the cost of the charter client. The yacht owner will typically net 80% of this rate after brokerage and charter management fees are paid.

A busy charter yacht may be able to deliver ten or more weeks of bookings per year—a significant source of revenue with which to offset operating expenses. Chartering can also serve to retain crew because it offers a source of extra income from tips and gratuities. There are some potential costs associated with achieving this revenue. To bring the high-quality charter yacht to the market it will be necessary to enter her into charter shows, potentially offer familiarization trips to brokers, and incur costs for marketing materials, videos, guest giveaways etc.

A note on compliance requirements for charter yachts: Entertaining guests who have paid for passage creates a commercial activity, which brings obligations to the owner for providing a safe environment for the guests and the crew (one could argue that private yacht users deserve the same obligation to themselves, but there is little regulation of that activity). Under the jurisdiction of the yacht's flag state, safety and security are addressed and subject to annual survey.

Future articles in this series will address the charter process and the compliance “map” for large yachts.

THE BIG PICTURE



Most yacht buyers should (and do) ask their broker: “What is my annual nut?” Furthering the example of the 160-foot motor yacht used in this article, the following may represent a first year of ownership after purchase:

- Set-up costs, new tender, inventory: \$150,000
- Charter acquisition costs: \$50,000
- Operations costs: \$2,186,740
- Charter revenue, 10 weeks at \$160,000 net per week: (\$1,600,000)
- First year out-of-pocket: \$786,740



MIAMI
DANIA BEACH
FORT LAUDERDALE
WEST PALM BEACH
STUART

DAYTONA BEACH
BRADENTON
NAPLES
TARPON SPRINGS
CHARLESTON

ANNAPOLIS
JERSEY CITY
MONTAUK
SOUTHPORT
NEWPORT

SAN DIEGO
NEWPORT BEACH
MARINA DEL REY
SAN FRANCISCO
SEATTLE