

Analysis of the global superyacht market and its potential for New Zealand's refit sector

This report seeks to provide a background for the preparation of the Waterfront Auckland Marine Strategy, particularly in relation to the global market potential of the superyacht refit sector. The global market plays a key role in this sector, considering that nearly 100% of yacht owners commissioning projects in New Zealand (NZ) are based overseas. The report does not cover economic valuation.

Total fleet

The global superyacht fleet is 4,836, as of 2013. It grew at an average of 5.4% over the last two decades. Growth in recent years has, however, been slow (3% last year) due to extended build times and lower order numbers as a result of the Global Financial Crisis (GFC). The fleet is expected to grow to 5,771 by 2019, based on the last five year's delivery average of 187 yachts.

Recent global orderbook (GOB) and delivery figures are positive. The start of 2014 saw growth for the first time in six years in the number of yachts being built, from 407 in 2013 to 411 (see Fig 1). History shows that with the current trend, a great leap in the fleet can be expected in the next two years. The GOB has delivery dates booked up to 2018 and is expected to deliver 72% of the yachts in 2014, 25% in 2015, and 3% in 2016 and beyond. Although delivery figures have declined since 2008, the latest trend shows delivery numbers now closing back together with new order numbers, indicating a trajectory towards stability and recovery (see Fig 2). The rate of unsold yachts has also declined – from 20% of the GOB in 2012 to at least 16% in 2013, and from 8% of the deliveries in 2012 to 6.5%.

Figure 1. Global orderbook and deliveries

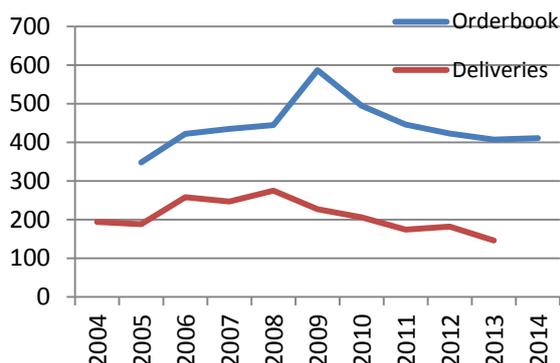
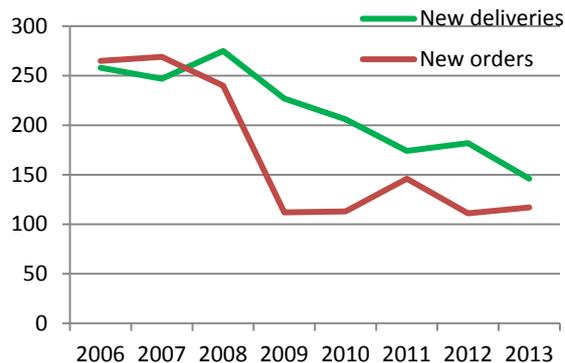


Figure 2. New deliveries and orders

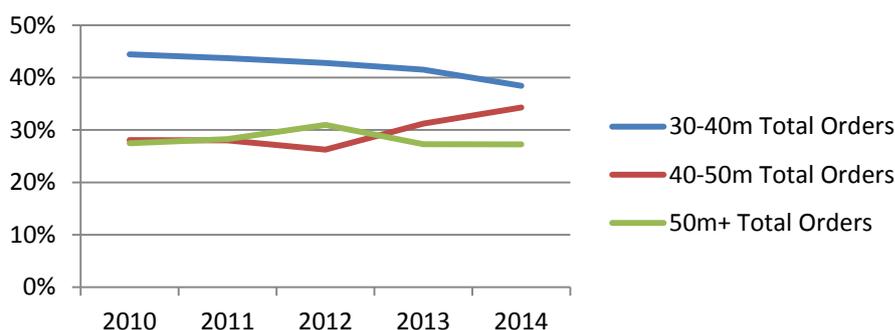


Australia and NZ enjoy 2% share each of the fleet, having delivered 97 and 92 yachts, respectively, in a similar category around the 40m size. Australia, however, has delivered to date three 70m+ yachts. In 2013, NZ was able to deliver two yachts totalling 83.06m – thanks to Circa Marine and Fitzroy Yachts, while Australia did not. Australia is expected to build three more yachts in the Australian Marine Complex (AMC) in Perth, averaging 80.6m, while NZ four yachts in three yards averaging 42m. These include Fitzroy Yachts in New Plymouth which has ceased operations upon completion of FY17 in February.

Types of superyacht

In both orderbook and deliveries, around 90% are motoryachts and 10% sailing yachts. Displacement and planing were the most popular hull type for motoryachts and sloops for sailing yachts. Superyachts have a length overall (LOA) of at least 30m. The current average sizing trend is in the 40-50m category, which is the major market for the average owner. Current trend shows a diminishing preference to 30-40m yachts (now 38% of GOB), growth in 40-50m (34%), and a static condition in the 50m+ market (see Fig 3).

Figure 3. Size categories



Builders

Europe is still the leading region for superyacht building and possibly refit due to the convenient proximity of its yards to a large number of owners. Its share in the GOB has grown from 76% in 2013 to 79% in 2014, made possible by the 3% three-year drop in the share of the Americas (now 9%). The rest of the world (ROW) enjoys a stable share of 12%. China and Australia are in the top 10 countries based on combined LOA, registering 479m and 243m respectively. Australia's marine industry is concentrated in the Australian Marine Complex located 23 kilometres south of Perth. In China, yacht manufacturers concentrate in either Shandong or Guangdong.

Due to the effects of the GFC and unfavourable currency exchange rates, fewer yards are delivering new built yachts – with only 70 in 2013 from 93 in 2012, the lowest drop seen in the last decade. Around 79% of the deliveries came from Europe, 9% Americas and 12% ROW. China delivered four new builds totalling 150.45m, and has the capacity to build more yachts in the future. It has 24 export-focused superyacht manufacturers. Foreign players (e.g. from UK, Italy) use or look to use China as a low-cost manufacturing base for their own respective markets. China has the potential to increase its share of the global production due to the available capacity of its existing foreign and state-owned yards, making costlier manufacturing elsewhere at a complete disadvantage.

Current orders are not enough to maximise the global yard capacity. Almost half of all yards did not register more than 50% capacity. This is equivalent to at least 158 available build slots. Further, sailing yacht builders are signing more orders (from 50% of them in 2012 to 57% in 2013) than motoryacht builders (from 51% to 43%).

Both Australia and NZ are experiencing a lull in new build activity, particularly in the 40-60m sailing yachts, mainly due to – the lingering effect of the GFC, strong currencies, minimal government support, used vessels available elsewhere at reduced prices, growing competitiveness of Asian shipyards (mainly in Taiwan and China), and peripheral location in the global demand market. As a result, many yards in the region diversify their service offerings to include comprehensive refit and servicing work to mainly visiting superyachts. Australia has embarked on a national Superyacht Australia Scheme which resulted in increased promotion of its superyacht sector, streamlining of the processes in the areas of industry promotion, increased buyer incentives, and ongoing infrastructure development.

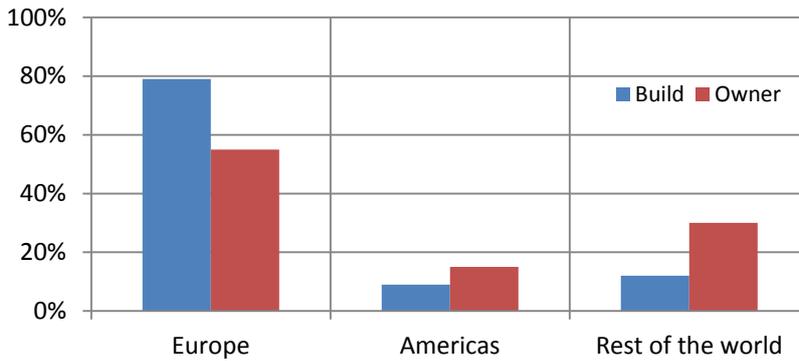
Experts indicate the following competitive advantages for each region:

- Germany – excellence in engineering
- Italy – exterior and interior styling
- China – cost
- NZ and Australia – refit work
- USA and Europe – quality or feature-differentiated products and services
- USA – reasonable quality and medium-to-low cost as labour market is currently competitive
- Northern Europe – high quality and reasonable cost

Buyers

Around 88% of new builds are being sold to repeat owners, 55% of which were new to the yard. This indicates that a large number of owners shop around and are highly price-driven, irrespective of whether they were satisfied by their previous build yard or not. The GOB shows that 55% of the owners are based in Europe, 15% Americas, and 30% ROW (mainly from Russia, Australia, and China). Although the world's largest builder, Italy is home to only 3% of the yachts in the GOB. Figure 4 shows that Europe is leading in production that serves both domestic and foreign demand.

Figure 4. GOB yacht build and ownership origins



China is home to only 34 superyachts and the demand is expected to increase due to the increasing desire of its 1.4 million millionaires to own one and growing number of available berths and marina clubs. A survey conducted in 2012 suggests that 51% of China's wealthiest will acquire a luxury yacht. Reliance from imports will be constrained by the high 43% import tax, making domestic production by local and foreign players attractive. There is potential for China's superyacht owners to sail overseas for both recreation and refit work due to the lack of natural scenery in their country.

The potential for superyacht refit

Based on the above figures, and assuming the number of orders increases at the long-term rate of 5.4% p.a., there will be around 1,000 yachts worldwide in the next four years that will require the 10-year obligatory refit. The long-term global demand forecast is shown in Figure 5. Figure 6 shows the potential levels of demand for NZ, assuming it maintains approximately 2% and 19% share respectively in the global new build and refit market. Note that the peaks are driven by the refit demand as a result of the peak in 2004-2008 and expected surge in demand in 2014-2018.

Figure 5. Projected new build and refit market size

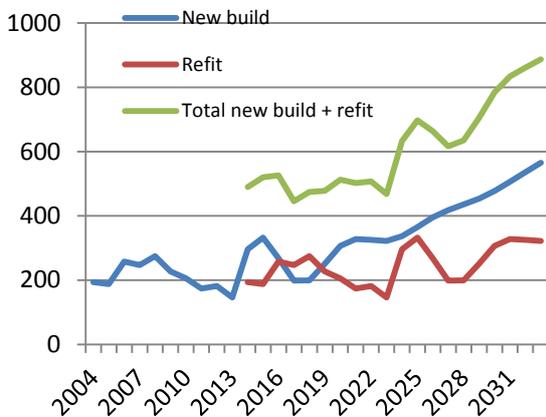
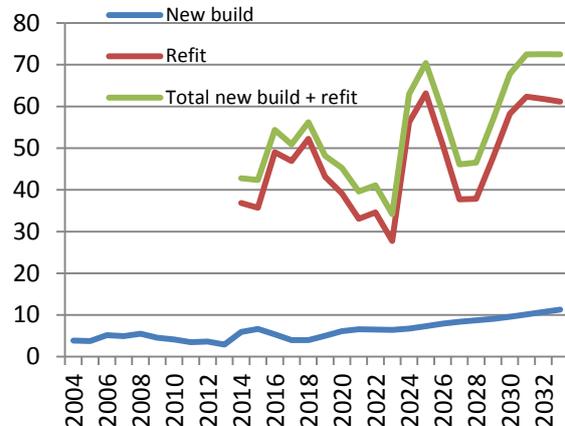


Figure 6. NZ projected new build and refit market



Reports show that there is already a significant increase in the number and scope of superyacht refit jobs, particularly in the second half of 2013, at key yards around the world, suggesting a marketplace is beginning to emerge. Yards in Europe are seeing more paint jobs and interior refresh works, and

cosmetic and outstanding upgrades for 70m+ yachts. Works surrounding the Americas Cup also reported an expected surge in demand for refit services.

Last year, 35 superyachts visited NZ, bringing approximately \$185m of industry revenue and \$95m tourist spending for an average stay of around six months. Asia Pacific Superyachts (APS), the tourism services agency that arranged these visits, is seeking to double this figure by 2018. According to Jeanette Tobin of APS, NZ and Australia were popular places to bring superyachts for servicing after Pacific cruising as the facilities were good. ATEED, NZ Marine and NZ Trade and Enterprise are also involved in this initiative.

The upsurge in demand for refit services has resulted in significant competition between individual yards and subcontractors. In some cases, providers barely break even. As works broaden, scope of refit reduces to technical and safety items, competition rises, and lots of yachts change hands as a result of increasing operational costs generated by new regulations and bureaucracy (particularly commercial yachts in the 30-50m LOA), a rebound in pricing can be expected due to increasing demand.

Some yards in Europe are investing in covered drydock to help reduce refit time and therefore cost to the client (e.g. Amico & Co). Feadship in Holland launched a Heritage Fleet in 2013 which could drive enhanced refit works. Over 10,000 Australians make up the global superyacht crew market, with many holding senior positions. This gives Australia an edge over NZ, as crew members often guide owners on where to visit or where planned yard periods should take place.

Experts indicate that NZ can strongly compete in the refit market, in view of the following strengths:

- Shipyards are flexible and innovative when it comes to accepting new technical challenges. They can achieve and in some cases surpass highest levels of European performance and quality standards.
- Workers have genuine can-do attitude.
- NZ is a safe politically stable developed country.
- Marine businesses and support service industry are long established and experienced.
- NZ is extremely proactive and persistent in marketing its refit capability.
- There is a high level of amenity available for visiting superyacht owners. Auckland is accessible to both urban amenities and natural scenery.
- Increased exposure of the NZ superyacht industry in the recent America's Cup in San Francisco (and the technical skills of the developers of both Emirates Team NZ and Oracle vessels)

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