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2024 SUPERYACHT FINANCE GUIDE

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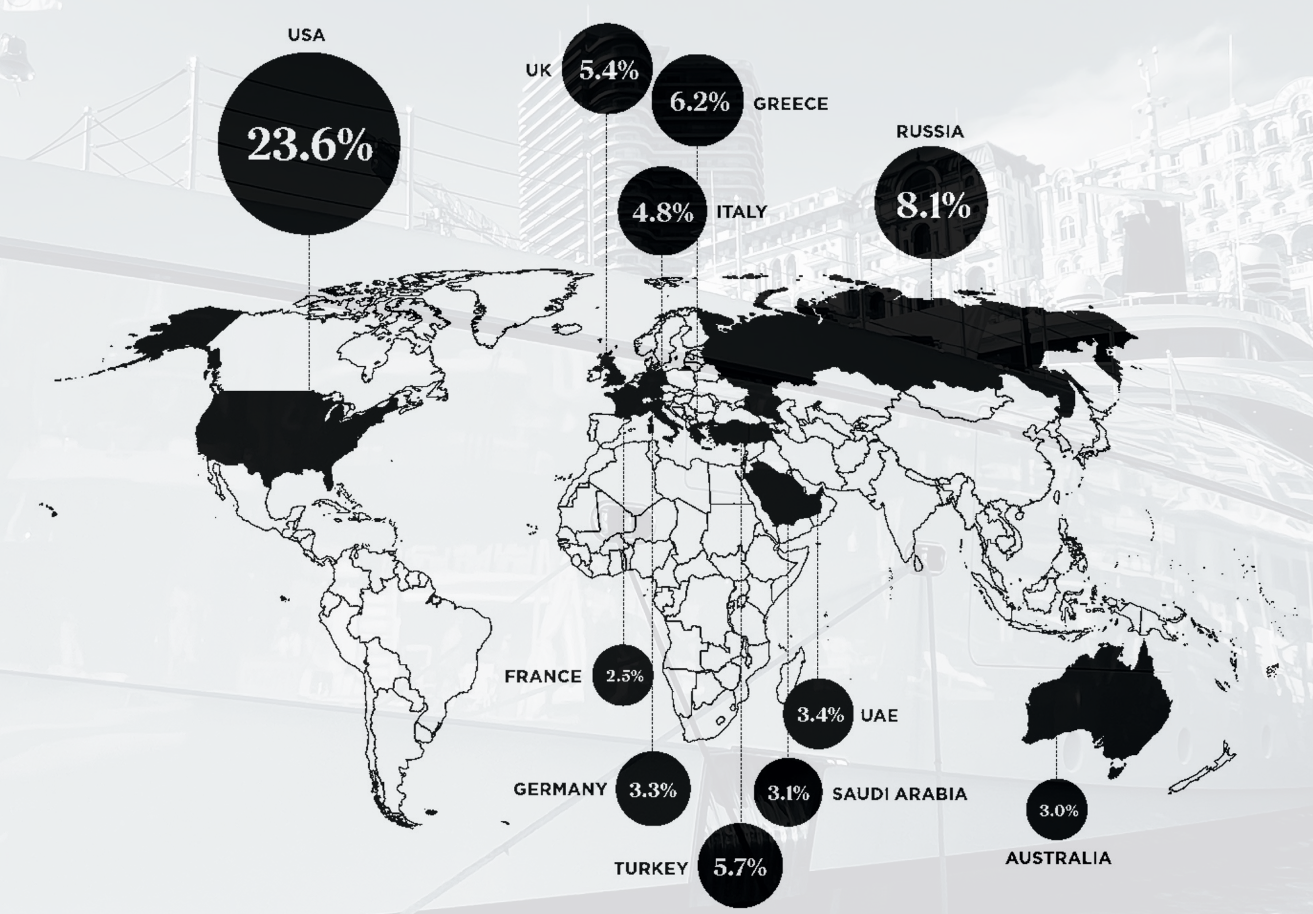
2024 Market overview – Geographic variation

The Yacht and Superyacht financing markets are segmented geographically, and by yacht size/value.

Geographically, credit liquidity is heavily weighted towards the US where an array of lenders offer their balance sheets to US clients seeking financing across the marine spectrum. Yacht lending in the US is a relatively mature market, security registration and enforcement are slick, and as a result credit terms are also competitive. While the US-Dollar base rate (typically SOFR or Fed Rate) is currently a little higher than Eurozone rates, available credit margins, leverage and loan duration are all attractive in relative terms. However, credit liquidity in the US market does taper significantly as lending surpasses the USD $20m mark. The majority of lenders in the sector don't have the balance sheet or appetite to hold single exposures above this level. For larger credit facilities, the market is almost exclusively held by the private banking community, and generally reserved for clients having material non-credit relationships with the financing institution, an important pivot from the traditional loan-only or dry lending solutions offered by commercial banks. Financing terms for larger yachts are often negotiated on a relationship basis, so can be very attractive for clients that present both a low credit risk and relationship value beyond credit.

Nationality of Superyacht owners of Yachts over 40 metres (2023)



Source: The Superyacht Times

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2024 Market overview – Geographic variation

Outside of the US, Europe is next in line for credit availability, and despite economic challenges, lending appetite remains healthy. Alike their US counterparts, European lenders take comfort in their home territory. There is a key difference though, Europe has multiple national borders, legal jurisdictions and languages, and (most but not all) lenders tend to limit their geographical mandates to their home borders, at least in terms of client citizenship and material asset/income base. Primary lenders in Europe can be found in the UK, Germany, France, Italy, Malta, and to a lesser extent Spain, Portugal and Scandinavia. It can be challenging for potential borrowers to ascertain which lenders might have lending mandates that overlap their unique situation incorporating personal residency, asset and income location, yacht owning entity incorporation and registration/flag.

European credit options also taper with yacht/loan size, but that taper tends to start at a lower level than in the US. However, for larger vessels and facilities, the European private banking sector steps-up well, providing clients with a reasonable number of financing options with a wide jurisdictional reach. European private banking solutions also incorporate broader relationship expectations, generally focused on managed assets.

There can be a pocket of weaker credit liquidity between the commercial bank facility size taper and the private bank zone, borrowers may need to look beyond Europe for solutions.

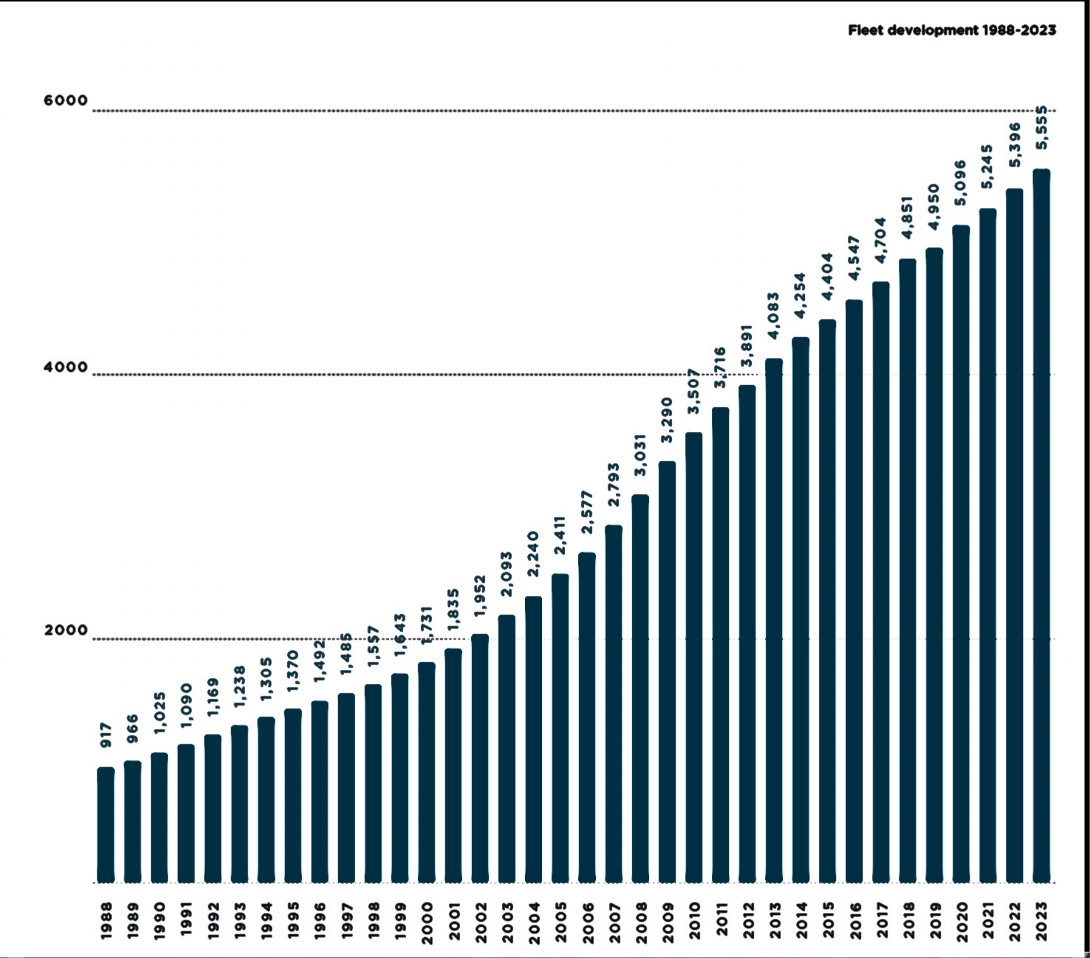
In addition to the traditional credit markets in the US and Europe, appetite for yacht financing also exists in APAC. While credit for this sector is not as abundant in APAC as it is in the Western markets, lenders from the region tend to focus on supporting borrowers in jurisdictions where European and US lenders are less aggressive, avoiding the need to compete, and instead taking advantage of underserved markets e.g. most of APAC and the Middle East. As wealth and yacht ownership grows across APAC, we should expect to see additional credit liquidity in the years to come.

2024 Market overview – Superyacht fleet and trading volume

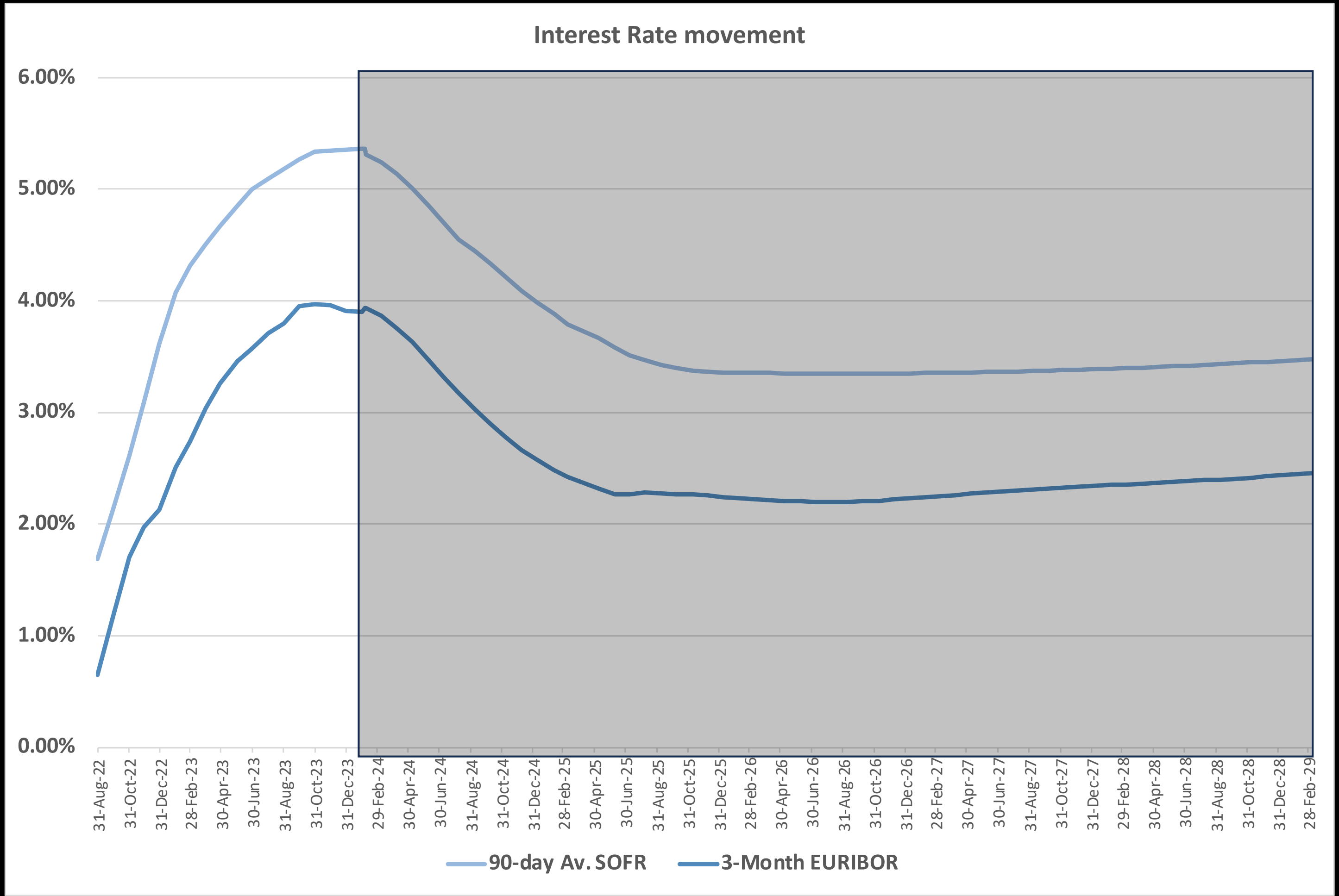
- Chart to the right illustrates the growth in the global Superyacht (>30m) fleet over a 35 year period to 2023. Over 5,500 Superyachts in operation as at the end of 2023
- In addition, there are over 600 reported Superyachts in-build/on order, although this number is possibly skewed by registered projects yet to commence material progress.
- Inflationary pressures, cost escalation, lead time extension and higher interest rates have all played a role in slowing newbuild orderbook growth, but for now the industry orderbook remains healthy
- New deliveries passed 200 yachts in 2023, with Italian yards leading the way in terms of numbers.
- Pre-owned yacht sales remain at reasonable levels, with approx. 370 yachts >30m changing hands during 2023, but this is a reduction from c. 500 yachts in 2022 worth an estimated market value of EUR 3bn collectively.
- Re-fits are also an important part of fleet preservation, and there are well over 1,000 refit yard visits per year, with yards in the US, Italy and Spain leading in this market.

Source: The Superyacht Times

Global Superyacht (>30m) operating fleet 1988 - 2023



2024 Market overview – Interest rates



- Chart illustrates an 18-month look-back, followed-by a 5-year forward curve for 3-Month EURIBOR (EUR) and 90-Day Average SOFR (USD)
- Following a period of continual rate rising through 2022 and into 2023, rates in EUR and USD have been fairly flat since Sept 2023
- EURIBOR and SOFR rates forecast to commence a period of reduction from March 2024
- Reductions of c. 1% - 1.2% expected by the end of 2024, and a further reduction of up to 0.5% in 2025.
- Variable rate facilities can expect to benefit from future rate reductions.
- Fixed rate facilities quoted today will benefit from lower Swap rates as 5-year Swaps have come down c. 50bps vs. mid-2023.

Source: Chatham Financial

How do I start the process?

Preparation and considerations

Before contacting potential lenders or credit advisors, it's worthwhile giving some thought to your financing objectives, and intentions regarding some of the legal, commercial and tax attributes of the yacht ownership and operation. These considerations might determine compatibility with lender mandates, and in-turn, financing feasibility and terms. However, these points do not need to be locked-down at this stage, and typically remain fluid until closer to yacht purchase or delivery as specific advice and consultation is sought. A good lender or credit advisor will be able to guide you through some of the key considerations, how they might impact your financing options, and offer referrals where specialist advice would be beneficial.

Financing objectives might include: a maximum equity contribution in mind for a yacht purchase, you might have a budget you prefer to keep within regarding monthly or quarterly loan or lease instalments, you may only require financing for a short period of time to bridge to a sale or perhaps a liquidity event enabling financing to be repaid.

Legal and tax considerations might include: how is/will the yacht be owned? If ownership is within a corporate entity, where will that entity be incorporated and how will that entity be owned and managed? Where will the yacht be registered? Will the yacht be used for charter? Where will the yacht be operated? Who will provide commercial and technical management? Will the yacht be VAT-paid?

Identifying and approaching lenders

How do I find potential lenders?

The financing market is opaque, and identifying lenders (especially if outside of the US), can be challenging and time consuming. If your yacht borrowing needs exceed EUR 10,000,000 and you have a supportive private bank, your private banker might be a good place to start. Even if you'd prefer to avoid any form of relationship tie-in, exploring terms that might be available for comparison purposes with a trusted connection might be time well spent. For borrowing needs under EUR 10,000,000, a specialist commercial lender would be the obvious port of call. It's not always obvious who the specialist lenders are, and while search engines can help with some ideas, it often takes time to locate the right contact and ascertain lending mandate compatibility. If you can navigate the lender's processes as far as an indicative term sheet, how do you know terms offered are on-market? How can you be confident with the lender's ability to formally approve and execute on the terms offered? Could you have omitted a potential lender from your market sounding that might offer more attractive terms?

Working with a specialist credit broker or advisor regardless of the financing quantum is often beneficial. A good credit advisor should have an ability to quickly understand your individual situation and objectives, and then use their lending market insight across a network of commercial, private and non-bank lenders to provide upfront guidance on feasibility and likely financing terms. Alike any professional advisory service, credit brokers will expect to be compensated for their time and value-add, so it's important to understand and agree those expectations upfront. While fees might vary from one advisor to another, and potentially vary with transaction complexity, they should be more than offset by time efficiencies and optimisation of terms based on market knowledge, negotiation and succinct presentation to potential lenders.
It's important to validate the credentials of any advisor before making a formal engagement, you'll want to ensure they have the experience, capabilities, and network to deliver on their mandate.

Application preparation

What information will I be expected to share?

Lenders will be interested to learn about your existing or intended yacht, so a recent valuation report and/or yacht details available online via a broker or OEM website would help to give a lender a reasonable idea of the asset they're asked to finance.

Unlike commercial marine vessels, a yacht is almost always a non-income generating asset. There are a few exceptions, but seasonal charter generally helps to offset ownership costs as opposed to providing the yacht with an effective profit. Consequently, a lender or lessor will need to rely on the beneficial owner of the yacht to ensure that sufficient funds are available for repayment when due. A material part of the feasibility screening and credit underwriting process will focus on the beneficial owner as a 'guarantor', and lenders will expect to receive information regarding the guarantor's sources of income, as well as their material assets and financial commitments. Where sources of income and/or material assets include interests in other corporate entities, lenders will expect to be able to undertake financial due diligence on those entities as if lending to that corporate directly. Typical documentation requests might include relevant historical financial statements, forecasts, evidence of personal liquid or investment assets, and evidence of ownership of material personal assets.
High-level information is usually sufficient for feasibility guidance, and possibly indicative lending terms, but formal disclosures will be expected as part of a credit approval process.

Can the lender take an asset-based approach and simply lend against the value without the need for a financial disclosure and credit due diligence process?

Optimal lending terms are available from regulated financial institutions, and as such, these institutions have a regulatory responsibility to lend responsibly. That includes an affordability assessment, and ensuring that the borrower or lessee is highly-likely to meet their financial obligations under the agreement.

Unregulated non-bank lenders are open for business in the yacht sector, and can place the majority of emphasis on asset security and a reduced focus on the need for financial due diligence. Cost of capital is higher, and this is often reflected in materially higher financing costs, but this section of the market has an ability to manage accelerated execution, and can be useful where a short timeline and/or financial due diligence limitations are present.

Construction and refit financing

Is financing available to help fund the costs of newbuild construction or refit?

In short, possibly. Yacht construction is considered high risk by lenders because the asset offered to them as security will be incomplete. There are a number of factors that could impair the completion of a vessel, so in addition to underwriting financial risk on the beneficial owner, lenders need to be comfortable underwriting operational and financial risk on the yacht builder. However, this is the same risk as the beneficial owner needs to be prepared to take when ordering a newbuild yacht, so due diligence and interests should be aligned.
Construction risks are often overlooked by buyers, especially where a lender is not involved and insistent on commercial and financial due diligence. There are several risk mitigants that should be explored:

i. Most builders will either (i) pass title to the buyer as soon as the hull can be registered, or (ii) retain title to the yacht during construction but grant a form of bank refund guarantee issued by the builder's bank covering milestone payments advanced as a security for the buyer. The refund guarantee can generally be called upon in the event of builder default under the build contract, so it's important to understand what the build contract determines as default and the trigger for payment. Note that a refund guarantee issued by the builder's bank, will offer enhanced risk mitigation over corporate recourse to the builder alone, which should be present by default as part of the build contract.
ii. If the buyer is granted title to the vessel under construction, it is generally possible to grant a construction mortgage to a lender, but this will depend on the jurisdiction of construction and relevant local laws and legal framework. Some jurisdictions will be considered as 'lender friendly' and others less so.
iii. Bank refund guarantee security can be deemed a significant enhancement over mortgage/title security, because both the buyer and the lender have an ability to demand repayment from a financial institution in a failed completion scenario. It's important to keep in mind that refund guarantee validity and the holder's ability to call on it will be regulated by certain documentation, often the build contract. A refund guarantee is only a promise to pay under certain conditions, so the financial strength and credit rating of the issuer is an important consideration and lenders will be focused on this.
iv. In addition to title and security, reasonable commercial and financial due diligence on the shipyard that a buyer will trust with its milestone payments over a possible two to three year period should be a pre-requisite regardless of financing

In contrast, refit work can present substantially less risk for the owner and the lender, but that will depend on the severity of the work involved. If the refit is limited to interior and exterior upgrades, and even technical upgrades or repowering, it is likely that increased risks are considered minimal by lenders. Lenders will appreciate the enhancements that refit work bring to the yacht's value and marketability. Material modifications and extensions will be higher risk, and similar considerations to construction financing could come into play.

Typical Yacht financing terms

Note: Guidance only, actual terms dependent on individual transaction, as well as market movements

Illustrative Lending Terms	
Borrower/Lessee	Newly-formed SPV incorporated in a jurisdiction acceptable to the Lender, beneficially owned by the Guarantor
Guarantor	Personal guarantee provided by the Ultimate Beneficial Owner (“UBO”) of the Borrower to support the obligations of the Borrower
Vessel	All yacht models considered, wider lender interest for leading OEMs and younger vessels
Registration	To be agreed and acceptable to the Lender, all EU, MCA, US, Cayman Islands, BVI etc. typically acceptable
Advance	Typically between 50% and 70% loan to value
Term	Typically 5 to 7 years
Balloon	Determined based on lender’s view of yacht depreciation profile
Amortisation profile	Straight-line to the Balloon repayment at maturity
Interest index	Typically 1 or 3 month Euribor or SOFR, fixed-rate options also available
Interest margin	Determined based on specific transaction and Guarantor circumstances
Facility Fee	Typically 0.5% - 1.5% of the Advance
Structure	Marine mortgage loan, finance lease or operating lease
Security	First priority mortgage over the Vessel (unless a lease structure), Borrower Share Pledge, Assignment of insurances, Assignment of Builder warranties

Atlantic Capital Advisory - Who are we?

Over 20 years of Marine and Aviation Lending Experience

Atlantic Capital Advisory is a credit advisory consultancy formed by an experienced Credit Director, leveraging over 20 years of Marine and Aviation lending experience to source and arrange optimal Superyacht financing and Business Jet financing for clients globally.

The financing market for both Superyachts and Business Jets is somewhat opaque. The right lender can be challenging to find, it's difficult to know if terms offered are competitive, and the application process can be cumbersome. We provide guidance on the market, financing structures, terms, and manage the entire transaction from lender sourcing to execution, saving you significant time.

Jon Henley, Managing Director

Jon has over 20 years of experience in structured finance, private banking and commercial credit, almost all of which has centred around transportation and a particular focus on hard asset lending across the aviation and marine sectors.

Prior to launching Atlantic Capital Advisory Limited, Jon held senior roles with global financial institutions, most recently with Deutsche Bank and Barclays, where he structured and executed transactions for private individuals, family offices, commercial operators, leasing platforms and private equity.

Our offering

Efficient, time-saving solutions delivered

Why use financing?	• **<u>Optimise your capital</u>**: Your liquidity has an opportunity cost. Using finance to part-fund the cost of your yacht provides for reduced upfront capital outlay, and the option of directing your liquidity towards higher-yielding investments, making other purchases, or retaining greater liquidity for unexpected cashflow requirements. • **<u>Potential tax efficiency</u>**: Be that as a result of a reduced need for drawings from corporate sources, or VAT efficiencies available through leasing structures. • **<u>Diversification of liquidity:</u>** Using dedicated yacht financing might allow other secured credit lines across commercial or financial investments to remain available for tactical purposes in the future.
Tailored solutions	We focus on understanding your personal situation, financing needs and preferences. Solutions are sourced and optimised to meet your unique objectives. We specialise in yacht financing and business jet financing, and deliver construction, term, acquisition and bridge financing.
Extensive global lender network	Built through leadership roles and over twenty-years with global financial institutions focused on lending across marine and aviation.
Outstanding structuring and execution	Refined through the delivery of over $4bn of lending transactions, from bi-lateral loans through to syndicated credit facilities. We're involved through the credit process, all the way to final execution to ensure your transaction progresses smoothly and where challenges do arise, we proactively work through them.
We work for you	We operate in a client advisory capacity, and charge a simple fee structure for our advisory and arranging services. We are not compensated by lenders, and negotiate hard to ensure you receive optimal financing terms.

Contact

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