

# The Superyacht

TRUTH • OPINION KNOWLEDGE • IDEAS AND EXPERT INDUSTRY ANALYSIS



# REPORT

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The top three builders in the USA order book talk about their positioning in the new-build market.

# APPRAISING THE APPRAISERS



**Captain Ed Geary,** Chartered Surveyor (Admiralty & Maritime), The Royal Institution of Chartered Surveyors, discusses the importance of professional valuations.

Over the last few years we've experienced a dramatic change in the valuation sector of the yacht and commercial ship market. In the past, it maintained a relatively steady course with regards to values; the yacht sector grew and stability prevailed until 2007/8, when, in anticipation of the approaching financial storm, everyone battened down the hatches.

Consolidation or, in other cases, the liquidation and collapse of industry leaders created shockwaves in the new and used vessel marketplace. There was an air of fear and anxiety because many of these well-established builders had impressive order books and were considered financially sound, having built and delivered hundreds of remarkable superyachts. In some cases, within hours orders were cancelled and unfinished, or new yachts still unregistered lost 35 per cent of their pre-crash value. The market for used vessels of the same type also weakened in spite of substantial price reductions and values dropping by almost 40 per cent.

The 'once had' fortunes of many superyacht owners soon disappeared along with Lehman Brothers and a gaggle of banks in the USA, UK and Europe. Required and sometimes costly maintenance programmes were abandoned, which led to a growth of insurance claims.

On the fringes of the superyacht industry, along with the purveyors of services, there is a multitude of players including chandlers, employment and management companies, and the technicians who service and do the repairs that keep the vessels legal, shipshape and seaworthy. However, at the forefront of these interested parties and those with the biggest financial

stake are the money gurus – the insurers and the lending institutions that provide the money that funds the acquisitions.

Valuation Appraisal Surveys on superyachts (or commercial ships) that have been prepared by surveyors who have misrepresented themselves as qualified appraisers may unconsciously expose the lending institution and underwriters to a perilous maritime adventure – if they accept the risk. Before a bank agrees to provide finance or an insurer offers coverage, a comprehensive valuation appraisal survey of the vessel should only be accepted if the report was prepared and submitted by a competent and qualified professional who has liability insurance in force with coverage at the appropriate level.

While there are a number of professional organisations whose surveyor members possess the necessary training and experience to undertake condition surveys most are not qualified nor certified in the valuation sciences. Before commissioning any report on a vessel's condition or value, the client should never rely solely on a surveyor's membership of a professional organisation. Prior to issuing instructions the client should verify and conduct a thorough background investigation of the person's credentials.

While marine surveyors or naval architects will quite often tender opinions of value these are often considered as little more than the 'dart board approach'. A reliable, valid and accurate opinion of value is the product of a trained, experienced and certified maritime appraiser who would be a member in good

standing with one of the two multi-disciplined appraisal organisations: the American Society of Appraisers in Washington, DC, or The Royal Institution of Chartered Surveyors in London. Both organisations have rigid qualifying criteria that must be met in order to acquire membership under their technical valuation designation. Membership requires annual recertification, and unwavering compliance to the principles of appraisal practice and the organisations' code of ethics or code of conduct. A valid report of valuation by a certified appraiser must always be written in full compliance with the international valuation standards (IVS) and the uniform standards of professional appraisal practice (USPAP).

When appraising classic yachts (those built prior to 1943) or vintage yachts (those built between 1943 and 1959) the appraiser would apply the same principles and methodology in the appraisal process as would be used with a superyacht or commercial vessel. Under the mandated standards of the IVS and USPAP an objective and substantiated appraiser's report of value must always include the methodology applied, that is income, cost or market – also referred to as the sales comparison approach, and must address the specifics relating to the influences of obsolescence.

**Physical obsolescence:** Wear and tear sustained during the in-service life of the vessel.

**Functional and technological obsolescence:** This includes the technological aspect of her gear, equipment and appurtenances, and the ability to perform and operate in the trade that she was specifically designed for.

**Economic obsolescence:** This includes external factors such as market demand, manning and compliance with statutory and regulatory compliance such as the MCA Code, the MLC 2006, etc. It also includes general maintenance in relation to the availability of newer, state-of-the-art vessels.

In the course of conducting a superyacht appraisal it is not unusual to observe that certain vessels, in the appraiser's opinion, do not have the reasonable potential for sale under orderly or forced liquidation conditions. This may introduce a further consideration in the valuation process identified as the Lowest Level of Value. The reason indicating this conclusion may include the following:

that, based on empirical data, the longer period of time may severely and negatively impact the opinion of value.

Self-serving information relating to value glibly tendered by yacht brokers or other interested parties may be useful in the maintenance of market-induced values, but should only be viewed as subjective. We shouldn't forget that a chemist can, without a prescription, provide you with limited medical advice, but when seeking

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**Excessive physical obsolescence:**

The vessel is damaged or worn beyond repair where the cost-to-cure could not be justified.

**Excessive functional and technological obsolescence:** The design and utility of the vessel is no longer desirable or economically feasible compared with current state-of-the-art replacement vessels.

**Excessive economic obsolescence:**

In extreme cases this would include and address external factors such as market demand, tax regimes, manning compliance with statutory and regulatory requirements, and general maintenance costs in relation to the availability of newer, state-of-the-art vessels.

Another factor that may influence an appraiser's decision is the timeframe associated with disposing of the property in the open market. For example, research may reveal that certain comparable vessels have sold in the used marketplace, but only after a period of time that exceeds the reasonable time frame associated with the premise(s) of value or client requirements. It's possible a buyer may be found, given a shorter period of time; however, it must be assumed

qualified medical guidance always see a licensed physician; the same applies to ship and superyacht valuations – see a professional. ■



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WITH SUBJECT: APPRAISING THE APPRAISERS