ownership, but without the acquisition costs. The downside is that there is no ownership stake to sell later on.

"The client enjoys all the services for a year for an up-front cost," Costa says. "There are no monthly fees or unexpected costs. They walk away after a year. Figuring in rates of depreciation, clients see this program as a much better value."

Barton & Gray Mariners Club, which began a fractional-ownership program of 36-foot Hinckley Picnic Boats at $150,000 per share, has boats at Nantucket, Mass., Greenwich, Conn., Naples, Fla., and Palm Beach. The Boston company also recently added a Mariners Card program. Much like increasingly popular jet cards, which allow owners to deduct funds on deposit at an hourly rate, the Mariners Card starts at $17,500, with a one-time initiation fee of $6,000.

"Many people shy away from a five-year commitment, but they understand the card concept," says Tim Barton, Barton & Gray's president.

CHARTERED TERRITORY

Other companies have created charter membership clubs. London-based PrivatSea, which began its first yacht expeditions in 2004, has sister companies in private jets and villas. "We take unused capacity from owners and make them available to our members," explains James Kung, the company's chief operating officer. PrivatSea's yachts range from about 100 to 400 feet.

Kung believes that the lack of depreciation costs associated with yacht ownership secures PrivatSea with an advantage over the fractional market. Its affiliated Luxury Alliance program opens doors for owners to trendy European clubs, like the Monte Carlo Country Club and Stoke Park Golf Club in London, that no traditional yacht charter could access. PrivatSea also offers preferential rates on jets in its PrivatAir program.

PrivatSea guests, Kung says, buy into the program with a one-time initiation fee of about $18,000, with "points" in an account to pay for yacht trips.

Jennifer Saia, the president of the Sacks Group, a yacht charter and management firm in Fort Lauderdale, maintains that traditional charters still offer the most flexibility. She acknowledges that the fractional model is popular now, but predicts that it will struggle to sustain demand over the long term.

"I just don't see the advantages," she says. "We can offer multiple boats in locations around the world, and you don't have to worry about things like asset depreciation." Saia also says that fractional companies can burn out a yacht's crew. "The average use of a charter boat is 10 to 15 weeks, with another eight taken up by the owner," she says. "Some of these companies are operating the yachts like a hotel, pushing the crews with a schedule that's crazy."

Indeed, a number of fractional-ownership firms folded after a brisk start because they couldn't sell slots on the yachts. And others associated with large charter firms have put their programs on hold. First Choice Marine, one of the world's largest charter companies, said that its fractional-ownership program lacked enough customers to launch it. ART Marine, associated with Italy's Azimut Yachts, also postponed its Club Azure program only a year after announcing it. These business challenges facing fractional yacht operators reinforce consultants' and advisors' recommendations to fully vet programs before committing. Yet with careful review, many could benefit, Mirguet says.

"This is the future of yacht ownership for people who are time-challenged and want to own a yacht without all the costs," Mirguet says. "It's going to become the mainstream way of acquiring boats." ▣

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ESSENTIAL QUESTIONS

FRACTIONAL OWNERSHIP IS AN ENTICING PROPOSITION because it eliminates many of the costs and hassles associated with yacht ownership. But experts and owners advise thorough due diligence when investigating a program, especially in regard to price.

"It's not a scam business, but people need to be comfortable with the character of the owners of the programs," says William Mirguet, the president of Drake Yachtshares, a fractional consultancy firm. "They also need to ask a lot of questions."

» Does the company attract sufficient customers to sustain the operation?

» Is your investment legally protected if the company files for bankruptcy protection?

» Can you tolerate other owners' preferences regarding positioning or upgrading decisions?

» Are you comfortable locking into a program for a fixed amount of time?

» Have you researched what unexpected costs might arise? (For instance, fractional owner Mark Binder was originally told the monthly maintenance fee would be $300, and was surprised when it jumped to $1,300.)

» What is your exit strategy? —*MV*

All Aboard

Fractional ownership is an accepted business model in private aviation, but will it become a common way to buy a yacht?

WHEN MARK BINDER BOUGHT a 55-foot Fleming motor yacht with three friends in 2002, he quickly realized the downsides of joint ownership. Not only did he and his partners struggle to negotiate equal boat time—including who received holiday weekends—but they also tangled over maintenance costs. "Our friendships survived," Binder says. "But the maintenance, scheduling and other unexpected costs were a real hassle."

Frequently, these types of troubles and unforeseen repairs and expenses define yacht ownership. Buying a boat with friends typically complicates matters even further. But a growing number of shared-ownership programs are attempting to minimize the headaches often associated with co-ownership. Over the past five years, U.S., European and Middle Eastern firms have created a record number of yacht-share programs, including joint yacht ownership, hybrid fractional/leasing options and debit-card programs that deduct payments for time on the yacht.

For Binder, a financial advisor in Southern California, a more structured program appealed to him after the experience with his friends. So last year he bought a quarter-interest in a new $1.2 million 53-foot Sunseeker from SeaNet in Newport Beach, Calif., a dealer for the British-built motor yachts.

"It used to be that most responsibilities were on me, down to deciding who's going to clean the boat. Now I have no contact with the other owners," Binder says. "The boat's fully stocked, and the captain runs it and maintains it. We get on, have fun and get off."

Fractional ownership has been an accepted business model in private aviation for the past 20 years; NetJets offered its first ownership share of a jet in 1987. Since then, other fractional providers have expanded the market even further. But until recently, the concept of partial ownership had proved less popular in yachting. Several fractional programs appeared during the tech boom of the late 1990s, but they struggled to gain wide market appeal.

"We were first out, with the Yachtscape fractional offerings in 1997, when we owned Hatteras Yachts," says Irwin Jacobs, the chairman of Genmar Holdings, one

of the largest boatbuilders in the United States. "But the times were so good that people didn't want to share their boats, and the business model wasn't as accepted as it is now." Yachtscape operated for a year and then closed.

Increasingly, the new fractional yacht programs focus on the most elaborate and expensive yachts. YachtPlus, a London-based firm founded three years ago by a group of owners and investors associated with Marquis Jet Europe, commissioned architect Norman Foster to design a fleet of 132-foot megayachts. Foster, whose credits include the Hearst headquarters in Manhattan and HSBC headquarters in Hong Kong, created a four-deck Signature Series boat with sharp curves and sweeping windows. Both futuristic and trendy, it claims to offer more interior space than any yacht in its class. The first of Foster's 10 planned yachts will launch at the Monaco Yacht Show in September and will cruise the Mediterranean or Caribbean.

Buying into the YachtPlus program costs $1.5 million for a one-twelfth share of the yacht, or three weeks each year. The annual maintenance fee runs an additional $224,000, and buyers must commit to the company's minimum two-year buy-in. Figured over four years, which is a reasonable period of ownership, a three-week cruise with 12 guests on this plan could cost less than chartering a comparably sized yacht, which costs about $140,000 to $220,000 per week, plus an extra 20 percent for fuel, food and gratuities. The YachtPlus program would cost an average of about $599,000 per year, compared to $504,000 to $792,000 per year for the three weeks on a charter vessel.

The YachtPlus program would also have the added benefit of returning a significant portion of the initial $1.5 million fractional ownership fee, which would lower the annual costs even more. The obvious benefit of fractional ownership, proponents say, is that owners can recoup a portion of their investment when they sell their share, while also using the same yacht each time. The downside, charter brokers counter, is that fractional programs tend to lock in owners for a specified time.

However, William Mirguet, who began Drake Yachtshares in 2002 as a fractional program and later developed it into a consultancy service for potential yacht owners, warns that fractional ownership should never be viewed as a traditional investment. Most fractional clients should expect an average 10 to 15 percent rate of depreciation per year of ownership, plus another 10 percent broker fee when their shares are sold. "A yacht is never an appreciating asset—at best, it's a break-even proposition," Mirguet says.

> "A YACHT IS NEVER AN APPRECIATING ASSET— AT BEST, IT'S A BREAK-EVEN PROPOSITION."

EXPERIENTIAL YACHTING

Binder, who spent $280,000 for his quarter share of the Sunseeker and pays about $40,000 in annual management fees, says his savings more than offset the depreciation. He also values delegating crew and maintenance issues. "I'm willing to pay to have a better experience for my family," he says.

Similarly, Gary Epstein wanted a more carefree boating experience for his family when he purchased a one-tenth share in a new 100-foot, four-stateroom Hargrave motor yacht from Monocle Fractional Yachts in Fort Lauderdale, which operates 50 jointly owned vessels. "We use the yacht to visit different ports and play with the toys on board, and the crew takes care of everything," he says. The Epsteins typically spend two weeks in the Caribbean and two weeks in New England.

Epstein, who previously owned 50- and 60-foot Hatteras motor yachts, also sees a financial advantage. "It didn't take long to figure out that paying 10 cents on the dollar was a smart choice," he says. "I didn't have to give up $7 million with an outright purchase, plus $700,000 a year for maintenance costs."

A one-tenth share of the Hargrave runs $515,000, plus about $40,000 in annual operating expenses. Monocle delivers the boat with amenities including electronics, a 25-foot tender, furnishings and even china, says Loren Simkowitz, the company's president. The fee also includes insurance, separate bank accounts for each owner and accounting services.

Many yacht enthusiasts like the fractional model in theory but struggle with the fine points of sharing ownership. Some of Mirguet's clients are reluctant to form a limited liability company with strangers. Others dislike programs that lack exit strategies, he says. "The worst-case scenario is being locked into a five-year situation that you want to get out of, and not being able to sell your share," Mirguet says.

Some companies have designed more flexible programs to address those concerns. SeaNet created a program that is more like fractional leasing, according to president Mike Costa. For example, SeaNet's new fractional yacht program costs $130,000 for a quarter share of the Sunseeker 53 and secures the same amount of time and service as fractional

TOP VIEW

FRACTIONAL ownership became a popular way to purchase shares in real estate and private jets. But until recently, prospective yacht owners preferred to go solo or buy with friends. Today, the number of new fractional programs is expanding, appealing to those who want to reduce their involvement in day-to-day decision-making and boat management.