



**The Process of
Buying or Selling a Yacht**

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This document has been developed for the expressed use of **Safe Harbor Yacht Sales** clients and is provided only as reference material to help the client better understand the process and their responsibilities in that process. It is our sincere hope that after fully understanding the process, our clients will better understand our value in this process and that ultimately it will make our clients' decision to use Safe Harbor Yacht Sales an easy one and to make the experience of buying or selling a pleasant one.

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We are often surprised about the lack of information that is readily available to the general public pertaining to the process of buying or selling a large boat or yacht (*Yacht Definition: Any of various relatively small, compared to large commercial ships, sailing or motor-driven vessels, generally with smart graceful lines, used for pleasure cruises or racing.*).

As brokers we often forget that while we do this everyday for a living, many owners are buying an asset that in some cases is the single biggest asset next to their home and yet quite different from a home purchase. The simple fact that many of our customers are buying a large boat for the first time, and do not understand what, how or who should do what. Therefore, for those of you who have never done it, and want to understand how it all works, this document is for you.

Unlike buying a boat from a dealer, whereby they handle all the details, much like a new car, this process is much different. While brokers are the middlemen in the transaction, buyers and sellers each have certain duties and responsibilities to make the transaction happen.

I will explain all of the steps and processes and provide the reasoning behind the comments. A thorough understanding of the processes will make the transaction much more pleasant for everyone involved.

What is the Yacht Brokers Job?

The brokers' job is to be the facilitator in the transaction, the one who handles the details and gets the deal closed. He is usually a knowledgeable individual that you should be able to trust and have confidence in to represent you and your interest in the best manner possible. Some times brokers act as simply a seller's agent, a buyer's agent or in some cases represent both buyer and sellers. While this may seem odd, it is actually quite common. This is where truth, integrity and character are most important. In this scenario, the broker's job is to get both buyer and seller to agree on a price, which is usually a fair and equitable price so that both parties get a fair deal.

All brokers work on a straight commission basis. The broker only gets paid, when the deal is done. He makes no money for showing boats to people that have no intention of buying a boat. He makes no money in listing a boat that is over priced, whereby the Owner does not really want to sell the boat. All he does in these situations is waste his time and money in advertising a boat that will not sell.

Additionally, a broker has nothing to sell but his time, knowledge and expertise. Clients should not waste a broker's time if they are truly not interested in buying or selling a vessel. A good broker should be interested in finding you the right boat, not just selling you one that he has listed. If the boat doesn't fit you and your boating lifestyle, the price of the vessel is immaterial, because chances are you will not be happy with the boat. A good broker should not apply pressure to buy now. I believe that when the time is right for you to buy or sell, you will recognize that and be comfortable.

Page 2 The Listing

The lifeblood of any good brokerage is the listings, and **SHYS** has staked its reputation on representing only quality vessels. Boats that have been properly cared for, well maintained, and that are in good operating condition. Vessels that have not been cared for or have serious defects are not sold by **SHYS**.

When a customer calls the brokerage to list his or her boat, several steps need to be taken before we make a decision to represent the customer and the boat. A vessel valuation will be done to determine its market value. Owners often know what they want out of the boat, but if their expectations are not realistic in the marketplace, then the broker is not doing his job by allowing the seller to maintain an unrealistic value of the vessel, and most likely the boat will not sell.

The valuation is determined by several factors. First, the broker will use five different industry sources to determine the high and low range for the vessel. Similar to the "Blue Book" in automobiles, we have different sources, while all are industry sources; they all come from a different perspective. Some favor more wholesale numbers, others are consumer based and then another, from a financial institution perspective, but collectively, averaged together, they represent a fairly accurate value of the vessel. Secondly, he will look at the boats currently on the market, how many are there, what are the prices and conditions of the vessels. Condition plays a major factor attracting qualified prospects, however the vessel must be priced in the correct range. And lastly we will determine how many similar vessels have been sold recently and for how much. These factors determine a boats market value.

The valuation is a must in today's market. Boats like automobiles have certain followings. Regardless of the fair market value of some boats, conditions such as location, type of boat, model year and manufacturer also contribute to a boats value. Some boats are what I call "Cult Boats". These are boats where there is a strong following of owners, whereby, they have created a desirable boat from their viewpoint or perhaps construction, sea-worthiness, fit and finish, design for a specific use, etc. These factors produce a vessel that may sell for more than it's book value. Some of these manufactures are Gulfstar, Chris Craft, Tollycraft, Trojan, Bertram, Burger and, Hatteras.

Conversely, certain other vessels go the other way, in that they will not sell for their stated values. This may be because of other factors, one being the number of boats manufactured and the number on the market. Still another factor is location of the vessel. For instance, Sea Ray is a very popular boat and a good boat. But, in Florida, there are huge numbers of Sea Rays and they are sold based on the last deal and what it sold for, regardless of its book value. Therefore, a Sea Ray in the Midwest, or the Great Lakes region may be worth more than if it was for sale in Florida.

Once the broker and the client have agreed on an "asking price" a Central Listing Agreement is signed, whereby the client agrees to pay the broker a fee of 10% for the job of selling their boat. This is an exclusive agreement, giving the broker the absolute right to sell the boat. Some brokers work on an Open Listing, whereby there is no exclusive

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right to sell the boat and sometimes, customers will have several brokers working to sell the same vessel. Unfortunately, this works against the customer in that everyone is trying to play "lets make a deal"; remember the broker doesn't make any money unless the boat is sold, and with an open listing there is no guarantees that the boat will be sold by the broker. So why should we waste our time, effort or advertising money to represent a boat where there is no commitment from the Seller. **SHYS** only works under an exclusive agreement, however we do allow personal exclusions such as friends or other contacts where they have already shown an interest in the vessel.

Many other brokers offer to discount the commission in selling a boat. This also works against the owner and the broker in getting the vessel sold as fast as possible. Most Professional Brokers in the industry, work together and other reputable brokers can and do sell each other's listings. The practice is known as "co-brokering" and is the norm within the industry, but when a deep discount in the commission arrangement is made before hand, a co-brokerage deal is harder to do because of the splits. The industry either works on a 70 -30, or a 50-50 split, with the larger percentage going to the selling broker. When a discount has been made of several percentage points the selling broker, is working for a much smaller commission and instead, he would rather move his client to a boat whereby the commission was the full amount. This practice of discounting only favors the customer in the event that the listing broker is also the selling broker. In some instances, **SHYS** will discount the commission in the event that the customer agrees to a discount only if the boat is sold in house, meaning that we are both the selling and listing broker and then a full commission if we are splitting the commission with another broker.

Additionally, when we represent a client in selling their boat and they agree to use us in the search for finding the next perfect boat, a small discount is offered on the selling of their vessel.

Once the vessel is listed, the real work begins. The broker will spend approximately two to three hours on board the boat gathering details of the boat and taking photographs for our websites. A brochure will be developed and sent to the client to check for accuracy in representing the yacht. Correct specifications, equipment lists and the correct listing of exclusions are most important and should be verified by the owner of the vessel.

The Search - For The Right Boat

Many customers come into the office looking to buy a boat and don't realize that we have resources available to us beyond our own listings. A good broker has of course good listings, but our job is not to "just sell you a boat, or one of our listings". Our job is to find you the right boat. A boat that fits, you, your lifestyle, and fits your boating requirements. No Brokers or Dealers can ever have every choice of every perfect vessel in their own inventory. If you feel comfortable with your sales agent at **SHYS**, let him work for you and find the perfect boat of your dreams.

This involves several steps, including knowing the boat manufactures, the market and what boats will fill the customers needs. Often times customers are confused with the

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type of boat that they want. They inadvertently listen to other boaters and think that a certain type of boat fits the bill, or that their budget can acquire such a boat. A Professional Yacht Broker, will recognize this confusion and correct it by presenting the client with options that will, once explored help the customer obtain a clear picture of the "perfect boat" or at least the next boat.

This is when a professional boat broker earns their money. Market analysis of models, pricing, availability and condition all play a role in locating a "possible suspect" for a client. The internet can create confusion for the customer. Unless you have the knowledge of manufactures, styles and the network of other brokers to find out about a particular vessel, you can spend all of your time chasing bad boats. Let your broker earn his money, and let him narrow down the field.

Thru digital technology , boats can be presented differently on the web. Pictures look great, but can be very misleading when viewed first hand. The broker's knowledge of vessels, how long it has been on the market and who represents the vessel can pay big dividends when it comes time to make an offer. This is information that may not be available to the consumer.

A professional broker should be able to solicit several answers from a client as to their likes and dislikes, budget range, boat style preferences and the time frame for the purchase. Without these answers, the broker is working blind and his chances of doing a good job for the client are diminished.

Armed with the client's information, we use the web as a research tool to locate and evaluate vessels currently on the market and how they might be valued. The sources used by the broker are numerous and include sources not available to the consumer. So to get the best boat value, use a professional broker to find the right boat. Too often, that "bargain" is determined to be a "washtub in a Yacht's clothing". After the research is complete, a short list of "suspects" is compiled for review by the client. After that review, an even shorter list of prospects are to be given further research, including a review with the listing broker, determining condition, price sensitivity and perhaps even a personal inspection by the **SHYS** agent, prior to showing to the client.

Finally, the broker has narrowed down the list to two or three boats to show the client, all fitting their personal requirements, budget range and value considerations. Together, the broker and the client inspect each vessel to determine further interest and perhaps the possibility of making an offer to purchase.

The Offer To Purchase

The contract to purchase a boat is accomplished by preparing an "offer" contract. Some clients want to steal a boat. That rarely happens. Reasonable people can negotiate, but unreasonable offers, produce insult and only make the process more difficult. Just as we don't solicit "Highball Listings", we don't solicit "Lowball Offers". Boats traditionally

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sell within 20% of ones asking price, unless there are extenuating circumstances, such as financial difficulty , condition of the vessel or other factors. So when it's time to make the offer, be reasonable and don't insult the seller. Any offer must be accompanied with a check, usually for 10% of the offer price, before the offer can be presented to the seller. In some cases, brokers will allow the client to deposit less than 10%, but if you want to let the Seller know you are serious, then write the check for the customary 10%. These funds are held in Escrow by the broker and are kept separate from other operating funds. If for any reason, a deposit on an Offer to Purchase contract is not accepted by a Seller and reasonable negotiations cannot produce agreement as to the acceptable purchase price, then the money is refunded to the Buyer.

The contract also spells out other vital information such as conditions subject to purchase, like acceptable Survey and Sea- Trail and equipment included with the boat. These details will be described in further detail in the following sections. All vessels being purchased are subject to some conditions, unless the client instructs the broker to write an offer know as " As Is, Where Is" meaning the vessels is being purchased as it sits. No conditions just certified funds are required to complete the transaction. We do not recommend purchasing any sizable boat in this manner. Future dates are also part of this contract, specifying acceptance dates from Seller, Closing Dates and Survey Dates are all part of this agreement. The contract is then property signed and presented to the Seller's broker or vessel owner.

Contract Negotiations

No one wants to pay a penny more for a boat than they have to, so some negotiations are expected and are the norm within the industry. Brokers do not know what the bottom line price is. That depends on the owners urgency and motivation for selling. What it takes to buy a boat is a contract and a check. Properly documented and presented, an offer that appears to be a lower than market value offer offer may get accepted, due to circumstances that only the seller knows. It may also produce a willingness on the part of the Seller to negotiate, because the deal may get done quickly, and therefore negotiating in good faith is most important. The Seller has three options when presented with an offer to purchase contract and they are as follows:

Acceptance -The Seller is basically accepting the price and terms of the offer contact.

Rejection - The Seller, basically rejects the contract, usually because of price and most likely feels that the gap between the buyer and seller is too far apart to effectively negotiate. This happens mostly to unreasonable offers.

Counter Offer -This is the most common form of response, and usually after reflection of price, terms, their personal desires to sell the boat, and other factors, the buyer is meet with a reasonable counter offer or basically a lowering of the price of the vessel. While we encourage sellers to make such counter offers it is their decision and theirs alone as to their willingness to do so.

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Once a contract has been successfully negotiated, the process proceeds on to the Survey and Sea Trial stage for verification of conditions.

Details. Details and More Details

Now that the contract is complete, the process is all about verification. Is the boat what we think it is? Is it worth what we are willing to pay and how do we go about paying for it.

- *Financing* -**SHYS** can provide several resources for obtaining financing and they can be found on our website, whereby you can fill out the applications on line and receive prior approval if you so desire. We believe that it makes sense to finance a portion of the cost of the vessel, especially in today's market where interest rates are so low and of course the interest is tax deductible. One should consult their personal adviser or accountant when determining the tax benefits.

- *Survey* -**NO ONE SHOULD EVER BUY A BOAT WITHOUT A SURVEY**. A survey is a must and should be viewed as dollars well spent, and the buyer should be present for the entire process. The cost for a survey is paid by the Buyer and usually runs \$11-12 a running foot. There are different types of Surveys and each type reviewed to determine if it is necessary. Do not use an old survey.
 - *A Hull Survey* is one whereby a qualified individual is paid to inspect the vessel completely and issue a report on all the vessels systems and conditions. Listing any deficiencies by a rating system, one usually accepted by the SAMS. (Society of American Marine Surveyor's) It is important to pick a surveyor that is accredited by such an organization, particularly if a bank or other financial institution is going to lend money on the vessel. Your insurance company may also require a current survey. This survey should also include a haul-out of the boat, so that the surveyor can inspect the bottom of the vessels hull and all of its running gear.
 - *An Engine Survey* is most often completed when the vessel has diesel engines. This survey may be done by a specialist or perhaps by the same individual completing the Hull Survey. This survey looks at primarily the engines, transmissions, and generator. Oil samples may be taken for microscopic particles of metal in the oil. This helps in determining the wear of the pistons and cylinder walls. This also is a wise investment if there is any suspect damage to the engine, poor maintenance, or engines with extreme hours. The cost varies but could be \$300-400 depending on the size and complexity of the engines.

Upon completion of this process, the Buyer will meet with the Surveyor and the Broker to determine the list of issues found on the survey, and the Buyer should know every issue relative to the condition of the vessel. Problems or issues will be rated in terms of their significance and will be addressed to the Seller. Keep in mind that this

is a used vessel and certain issues such as minor wear and tear on fabrics, carpets, wall covering, bedding and perhaps lights and switches are minor in nature; compared to major engine or safety issues. If there are significant issues effecting engines, transmissions, or major safety issues, then it is usually incumbent upon the Seller to correct those defects. A meeting between the Surveyor, the Buyer and the Broker is held to determine who is going to pay for the repair or replacement of which issues. Usually a list is prepared for each party and that list signed and attached to the Purchase and Sale Agreement. From the Seller's perspective, usually a quote for the repairs is obtained and after agreement with the Seller, a cash reduction in the price to compensate the new buyer for having those serious items repaired.

- *Sea-Trial-* This is it, the time that you get to handle the vessel. Usually, the Broker, the Owner's representative and the Buyer are onboard with the Surveyors. The boat is put through its paces to determine the sea-worthiness of the vessel, the speed, operating ranges of oil pressure and water temperatures are verified for the survey. The vessel will complete a number of different maneuvers such as backing hard on both engines, backing hard on each engine one at a time, and turning on one engine at a time. This is done to check for vibration in the running gear, props and shafts of a vessel. The vessel will also be run at WOT (wide open throttle) for a period of time, usually five minutes again to check operating temperatures and then again at cruise speed.
- *Buyers turn-* After these maneuvers are complete, then the Buyer gets their turn at the Helm. This is your time to drive the vessel, make it turn, back it up and just a good over all opportunity to get comfortable with the new vessel.
- *Acceptance or Rejection -*This step is most important for it is at this point that the Buyer decides that they will either complete the transaction or reject the vessel. We explained earlier in this document that after the survey, that there may be some deficiencies noted in the survey, some that may require a second round of negotiations and an adjustment to the purchase price of the vessel. If this is the case and both parties agree on the final number, then the Acceptance Document is signed by the Buyer and provided to the Seller. At that point the Buyer is obligated to complete the transaction. Should the Survey produce unsatisfactory results to such an extent that the Seller and Buyer cannot reach an accord, or the vessel has major mechanical or structural defects that are unacceptable to the Buyer, then the vessel is deemed "Rejected" and the Broker will notify the Seller and refund the Buyer's deposit or earnest money.
- *Closing Process -*Now that the Buyer has accepted the vessel, the process of closing can be complicated and needs to be completed by a competent person. It involves several steps and several documents. Usually, a professional Brokerage will use a Documentation Company to handle even the simplest transactions. The goal of this Company is to make certain that clear title for the vessel is conveyed

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to the Buyer and a mortgage, if applicable, is properly recorded.

Typically large vessels over 30' are usually documented by the Coast Guard. This process allows the Coast Guard to track vessels by name, manufacture and hull number for use in a National Emergency, and if your vessel is called upon for service, you are required to turn it over for their use. While this seems ridiculous in today's world, one must remember that the documentation process goes back into the early 1800's. The main purpose today for having one's vessel documented is the chain of ownership that is recorded by the USCG. When a vessel is documented, it's owners, lien holders and anyone else that possesses a legal interest in the vessel is recorded and kept for official record purposes. The vessel is given a USCG "Official Number" and it stays with the vessel until such time that it is no longer Documented. This number is to be affixed to a permanent location within the hull, usually on an overhead stringer of the deck or a placard affixed to the engine hatch.

Conclusion

SHYS goal is to sell and assist a buyer in the selection of the appropriate vessel to serve their needs well for many years to come. We have been very blessed that when the owner's needs have changed, most come back to us to repeat the process again. Thank you.