

WEEKEND JOURNAL.

THE WALL STREET JOURNAL.

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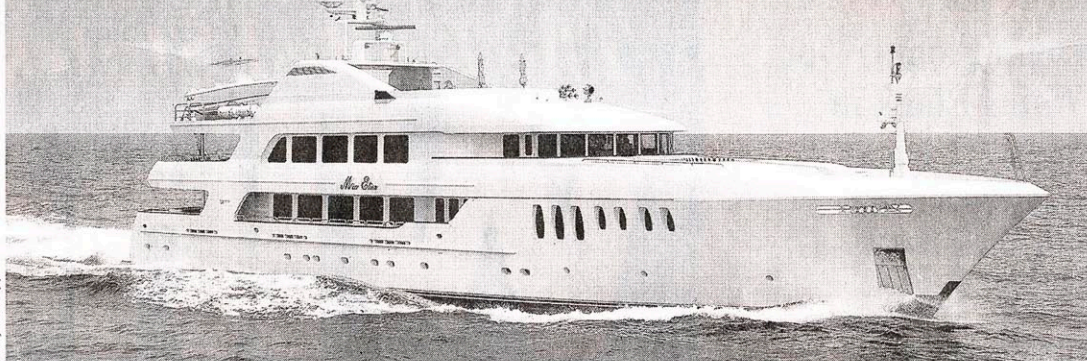
Wealth Report

Profits Ahoy! Instead of weighing anchor, owners flip yachts, make millions. **W2**

The Wealth Report | Robert Frank

Flip That Yacht

Rich Buyers Sell Unfinished Boats, Reaping Millions in Profits



Trinity Yachts (2)

TERRY TAYLOR, a Florida car dealer, has purchased five yachts since 2001. But don't expect to see him anchoring off the coast of Cannes this week. Mr. Taylor is boatless, having sold all of his yachts to other buyers for huge profits.

"I wouldn't feel too bad for Terry," jokes Felix Sabates, a partner in Trinity Yachts of Gulfport, Miss., which built Mr. Taylor's boats. "He's probably made more money off those boats than we did."

Mr. Taylor is part of a new breed of wealthy boat buyers: yacht flippers, who sell their costly purchases often without taking them on a single cruise.

With demand for large yachts far outstripping supply, the market for half-finished or recently completed boats is soaring. Some buyers are selling their boats months before they're ready, for millions more than they agreed to pay. Others are auctioning off their slots on yacht-builder waiting lines.

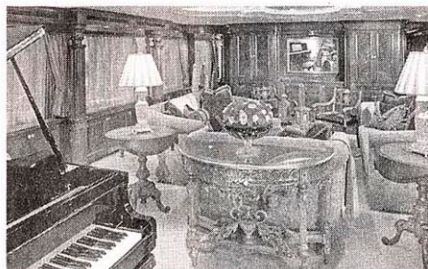
Today's new rich, being entrepreneurial, can't resist the lure of the deal even when it comes to the multimillion-dollar toys they are buying for their own pleasure. Yacht flippers are the superrich cousins of the real-estate flippers of the housing boom. Just as speculators bought Florida condos only to sell them, often unfinished, months later (which worked fine until prices fell), yacht flippers are banking on rising prices to buoy their investments.

"The risk, I guess, is that the yacht market collapses," says Billy Smith, a partner in Trinity. "But with all the wealth that's being created, there are no signs that that will happen." That may be true today, but the yacht-building industry has a history of ups and downs that in some ways mirrors the real-estate market. Still, flippers are a tiny minority of yacht buyers, and their wealth should allow most of them to hold on to their boats if no buyers emerge.

This year, the number of yachts under construction that were larger than 80 feet long soared to 777 world-wide, up 61% from 2003, according to Showboats International magazine. American yacht builders have been especially swamped, since the falling dollar has made their boats cheaper compared to their European competitors. Even though builders are expanding furiously, their production lines are backed up for

years. Customers ordering one of Trinity's \$35 million, 161-footers today have to wait at least three years for delivery. Christensen, a Vancouver, Wash.-based builder, says the wait time for its two models—at 160 feet and 206 feet—is now about 3½ years. Westport, of Westport, Wash., which builds more standardized yachts, has a delivery period of about 20 months or less.

Like Ferrari and Gulfstream, which have waiting lists for their top cars and jets, some yacht makers don't like to admit that their customers are profiting at the company's expense. "That's not how we operate," says Philip Purcell of Westport, whose boats start at 100 feet long. "I'm not saying it doesn't happen or that we can prevent it. I'm just saying that's not what our customers are about."



But others say the practice is becoming more widespread. Since most of the new rich have more money than time, they're willing to pay big premiums to have their boats ready for this summer's season. Here's how it works: A buyer orders, say, one of Christensen's 160-foot yachts for \$35 million. But just before delivery, another buyer comes along and offers him \$42 million for the boat. The seller can then commission another 160-footer (which may have gone up only slightly in price, to say \$38 million) or he uses the profit to upgrade to a larger model. Christensen and Trinity say their customers can now sell a \$35 million boat in production for a profit of \$5 million to \$7 million.

"Today's buyers want instant gratification," Mr. Sabates says. He knows firsthand. The Cuban-American entrepreneur, who made his first fortune distributing Teddy Ruxpin and Cabbage Patch Kids dolls and now owns a Nascar team and other com-

panies, was a big yacht flipper himself. He bought and sold more than 18 boats in the late 1990s and early 2000s, he says, earning more than \$10 million. He bought so many boats from Trinity that it made him a partner. He recently gave up flipping, since he says it wasn't in the interests of the boat yard.

Still, Trinity itself has tried to get into the act by buying out some of its customers for resale. "None of them would take our offer," Mr. Sabates says. "They're not stupid."

Henry Lukens, a Chattanooga, Tenn., entrepreneur who founded a long-distance phone company, bought two yachts from Christensen but sold them both shortly after they were finished. Now he's building a third that "I swear I'm going to keep or my family will kill me." He declines to say what he made on the transactions.

In 2001, Mr. Taylor bought a 142-foot finished boat from Trinity and at the same time placed an order for a 150-foot boat called Analise. He sold Analise while it was being built and ordered another 150-footer that was sold during construction.

Mr. Taylor ordered two more boats, one 150 feet and another 180 feet. The 150-footer was sold in early 2004, shortly after it was delivered. He sold the 180-footer this year—although at least he got to use it for two years. Mr. Taylor declined to comment.

Another Trinity client, Rick Hendrick, the motorsports tycoon and car-dealer owner, has ordered three boats from Trinity but hasn't received any of them. His first one, a 157-footer, was sold just two months before delivery for a multimillion-dollar profit. He commissioned a second boat, which was sold months into construction. His third boat is still being built.

But Mr. Sabates says Mr. Hendrick, who declined to comment, won't go boatless this summer. "He has a 124-foot boat that he bought from me," Mr. Sabates says. "So we all made out pretty well."

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