

Crypto Crew

The superyacht world has been slow to engage with digital currencies but, as *Izabella Kaminska discovers*, early adopters may well be rewarded

ILLUSTRATION

MICHAŁ BEDNARSKI



ob Denison of Fort Lauderdale-based Denison Yacht Sales first saw the potential of cryptocurrency when chartering a catamaran in the BVIs around five years ago. When it became time to split the trip's costs with his friends, one of his party sent him a bitcoin transaction.

“It opened my eyes to there being certain advantages with crypto and that it would affect

the way people interact with money and yachts,” he says.

Denison’s brokerage started accepting cryptocurrencies soon after. It was, he says, mainly a way to expand his pool of potential clients, many of whom had crypto wealth to spend. In a similar vein, he also moved to taking payments in other foreign currencies, such as euros. Since that time, he says he’s processed around 12 major transactions for either charters or sales – enough to have made it worthwhile in his eyes.

Being a first mover in crypto has brought promotional opportunities, too. “I seem somehow to have become one of the people that is interviewed for stuff like this,” he says. Denison doesn’t see himself as a cryptocurrency expert. “We’re kind of figuring it out and thinking creatively. For me, there’s something really cool there. I don’t know what it is yet. But I think there is something there.”

He adds that there is still a lot more cynicism than excitement about crypto in the yachting industry.

The new-fangled asset class certainly feels like it should be particularly suited to the lifestyles of those engaged with superyachts or boating. Cryptocurrencies float through the international financial system akin to some sort of stateless vessel, docking onshore only when users, often high-net-worth individuals, need access to the resources of nation states.

One of the world’s best-known cryptocurrency promoters is Michael Saylor, the **executive chairman** of Microstrategy, a yachting enthusiast who frequently conducts crypto-boosting interviews aboard one of his yachts or in front of nautically themed furniture. Finally, there are the supplementary protocols that try to “anchor” digital assets to sturdier onshore systems, from “Anchor protocol” and “Tether”, to nautically themed platforms and marketplaces, such as “OpenSea”. The latter is one of the leading destinations for the trading of non-fungible tokens (NFTs) – the latest and most visually alluring incarnation of the cryptocurrency phenomenon.

In practice, the largely conservative superyacht industry has been much slower than others to adopt crypto-denominated payments or to engage with NFT culture. The art world, for example, dived in far more readily following the success of digital artist Beeple’s NFT sale at a Christie’s auction in March 2021, at which he sold his digital collage, *Everydays: The First 5000 Days*, for \$69 million (£56.6 million).

Some of the reluctance in yachting may be down to disaster stories about the times crypto has already converged with the high seas. One of the best examples is that of the trio of cryptocurrency enthusiasts who decided to buy a former P&O cruiser for \$9.5 million (£7.8 million) in October 2020. Their aim was to turn the vessel into a self-sustaining, libertarian, homesteading community, free of government intervention or regulation.

The intrepid trio even renamed the ship the *MS Satoshi* in honour of the pseudonymous founder of bitcoin. Their eventual hope was to fund and operate the community, which included plans for interconnected seapod residences off the coast of Panama, with cryptocurrencies or blockchain protocols. The results of the collective endeavour, however, proved largely calamitous.

Life aboard the ship didn’t work out quite how the trio expected. Commenting on what went wrong, the vessel’s captain told *The Guardian* in September 2021 that the owners had been naive about how shipping worked and that their abhorrence for following rules had largely proved to be their unmaking. The trio had significantly underestimated the costs of running and maintaining a seaworthy vessel of that size.

By February 2021 the libertarian pipe-dream had come to a crashing end. Spiralling costs forced the owners to sell *MS Satoshi* for \$12 million (£9.8 million) to a more experienced buyer. As

The Guardian noted at the time, that sum may have been more than the bitcoin enthusiasts had paid for the vessel initially, but it’s unlikely to have compensated for the costs of operating the ship in the interim.

One of the ironies of the debacle was that it was the very thing that proponents claimed crypto and blockchain could solve – bureaucracy – that proved to be the venture’s undoing.

Since then the crypto industry has headed into an even bigger storm. In the last six months the market has suffered one of the largest collapses in its 14-year history, falling from a value of \$3 trillion (£2.46 trillion) at its peak in November 2021, to one currently worth no more than ~~\$XXXXXXX~~.

Those who had hoped that 2022 might be the year that yachting would finally embrace cryptocurrency have had to pare back expectations.

On paper, Zachary Mandelstein chose the worst time to launch his crypto venture, Cloud Yachts. The NFT specialist, who is collaborating with yacht designers, brokers and online influencers, launched his offering in February 2022 at the Miami Yacht Show, a time when the buzz surrounding NFTs was already in decline. By April, the wider cryptocurrency market was in a total state of collapse.

But Mandelstein, who hails from the branding and intellectual trademark world, says he knew a crash was coming and took precautions to limit his exposure to the volatile ethereum currency, which the vast majority of NFTs are linked to. “It was all too crazy,” he says. “The ethereum we had earned, we used to pay for development when it was worth something, which was great, so, by the time the crash came, we really didn’t have much ethereum left.”

Like many others dipping their toes in the sector, Mandelstein remains cautiously optimistic that this is far from the end of crypto.

Crypto experimentation in yachting can be divided into roughly three areas: payments for yachts using crypto, the creation of yacht-themed NFTs and the use of blockchain protocols more widely for tokenisation purposes. There are also endeavours amalgamating all three of these areas.

Mandelstein’s business, which he describes as the only Web3 company in the yachting industry, is, for example, collaborating with Denison. The venture is typical of many of the promotion-rich, one-man enterprises that propagate the crypto industry and is driven largely by Mandelstein’s passion for both yachting and crypto.

“I was trying to figure out what I could do with NFT technology and my love of boats and my intellectual property management background, and it just hit me like a thunderbolt in April of 2020 that there was a massive supply of intellectual property from the superyacht designers that was never used, because very few boats actually get built,” he says.

Cloud Yachts takes those designs and turns them into limited series of NFT-minted crypto assets for an aspirationally minded client base.

But the company doesn’t just deal in collectible NFTs. “I’m actually no different than any yacht brokerage in Florida with a licence to sell used yachts and to have yacht sales professionals hang their licence at my brokerage and sell under me,” says Mandelstein.

He has recruited a key yachting influencer to what he describes as his virtual yacht brokerage business. This allows his business, which is entirely cloud-based, to tap into an 800,000-plus platform to broker yachts.

For now, the diversification has held his business in good stead because, by Mandelstein’s own admission, nobody is buying NFTs. Real boats, by contrast, are still selling well. The whole arrangement reveals the degree to which NFTs are used as marketing tools to drive business to relatively vanilla models.

According to Andrew Grant Super, whose company, **Deer Hague**, is dabbling with tokenised ownership in the sector, merely using the phrase NFT gets you on the front pages of yachting publications. “There’s a lot of hot air, not a lot of substance, and I’m being kind about that,” he says.

His perspective gels with the fact that many of those closely involved in the sector struggle to explain exactly what the new NFT technology can bring to yachting.

On one hand, enthusiasts argue that NFTs can

give yacht builders and brokers the ability to bundle all related documents, designs and certificates of the boats being sold into a neat digital format as an added bonus for the buyers. “We’re providing them a new way to access their data,” says Mandelstein.

On the other hand, those backing the tech often offer little clarity on why NFTs are superior to conventional databases or PDFs beyond the mere proposition that it’s about some sort of digital experience.

For many high-net-worth individuals, putting private documents on a public blockchain might feel like more of a liability than a feature, even with secure encryption. The idea that all you need to prove ownership is access to a digital file is also not particularly reassuring.

“NFTs are just giving a token attached to a physical asset,” explains Grant Super. “They’re definitely not replacing the official legal world of platforms for registering yachts.”

Others suggest the reason it’s hard to see the benefits of NFTs is because it’s still early days for the technology. Denison envisages a world 20 years from now where the usual bureaucracy

associated with managing yachts, charters and onshore access can be significantly reduced with the help of tokenised, but ultimately publicly listed, documentation.

For example, while holding a digital bearer token that says you own a yacht is unlikely to help you retrieve it if it is stolen, he says it might one day make life much harder for a would-be thief.

“The person who steals a boat – the next time they try to go to a marina or refuel, if they have to show a QR code to indicate beneficial ownership, that perhaps makes things more difficult for the thief and easier for the coast guard,” he says.

The other significant driver of NFT interest is on the aspirational side of things. Today that means selling NFTs to those who are unlikely to ever own a yacht, but who might be able to afford a digital equivalent in the metaverse or whose enthusiasm for yachts can be tapped into in different ways.

Some of these NFTs may also offer additional experiences as associated token rights, such as access to boat shows, parties or even opportunities to visit some of the boats in question.

"We think it's going to be really fun for people who are dreaming of owning yachts, or scrolling through new yachts, to have the ability before they jump offline to mint and NFT superyachts, and keep them in their wallets and have fun with them," says Mandelstein.

When pressed on how exactly people might have fun with digital yachts – or why NFT invitations are better than conventional ones – it turns out the real opportunity at the heart of the NFT business is getting yacht enthusiasts into yacht sales.

"We're providing them with an opportunity to jump into the yachting industry. And if they're an incredible salesperson, they might make a lot of money. We're not promising anything. It's not financial advice, but we're certainly saying thank you for buying our NFT," says Mandelstein, noting that buying one of his NFTs entitles an owner to apply for a virtual brokerage licence with his business. "We are a sales company and we need NFT salesmen, in the metaverse and in real life here in Florida."

Grant Super's business, Deer Hague, hopes to tap into an even more niche aspirational market.

He offers select clients the opportunity to invest in high-value physical assets – among them assets held on yachts – on a fractional basis using NFTs. Again, as an added sweetener, the tokens can give holders additional rights, such as the opportunity to visit the assets they fractionally own.

"Yachts obviously contain a lot of valuable assets, such a furniture, and we have agreements with the owners to start doing fractional ownership of these assets in order to make some money out of them," notes Grant Super. For those raising money this way, the advantage is that the assets themselves never have to leave the yachts.

Grant Super stresses the tokens themselves are not a replacement for the usual due diligence protocols associated with chartering yachts or raising

Critics say the technology is often a solution looking for a problem. Even in its most vanilla application, that of payments, it's unclear why brokers should take the risk of converting crypto payments on to their own balance sheets

money: "We will be vetting the people, that's part of the process. You can't just let anybody come on board."

Despite having a somewhat cynical take on the state of the market, Grant Super still thinks that, in the longer run, NFTs and decentralised autonomous organisations (DAOs) could open the door to new types of collective ownership models for the yachting world.

"This will allow people into very serious assets, including resorts and superyachts, in a tiered way where expectations are measured against what tier you're in," he says. "So, if you pay more, you may always get August, but I never get August, I get July, or you get three visits on board, whereas I only get one and so on and so forth."

Other boating experts, however, see this as unlikely due to the uniquely disastrous history of timeshare models in the industry. "People fight all the time over this stuff because there are running costs and then boats break all the time," says Brendan Greeley, a journalist who writes about both economics and boating for the *Financial Times*. "If you have an NFT yacht share, you'd need one of those yacht operating companies to manage all of the bookkeeping and cost sharing, and then you might as well just rent the goddamn boat for a week when you need it. You can't get around centralisation."

This feeds into the wider perspective among critics of crypto that the technology is more often than not a solution looking for a problem. Even in its most vanilla application – that of payments

Same business as referred to previously?

– it's unclear why brokers should take the risk and bear the cost of converting crypto payments on to their own balance sheets rather than having their customers do it. Operating in crypto, after all, is not costless. Denison, whose brokerage uses Bitpay to process such transactions, admits the company charges a 1 per cent fee on every transaction. That's less than what many crypto holders may be used to paying when trying to convert their holdings into fiat currencies, but far from zero.

It's tempting to posit that the real motivation for accepting crypto may be a type of due-diligence arbitrage related to the fact that it's easier and cheaper for an established yachting brokerage to cash-out crypto for conventional dollars than for those who may have earned their crypto wealth in potentially dubious ways.

But Denison opposes this assertion. He says any law-abiding and respectable brokerage has to abide by know-your-customer (KYC) principles anyway. "Whether somebody sends us crypto or cash, or bushels of corn, whatever it is, we still have to do KYC no matter what," he explains, implying there is no upside to a potential money launderer using crypto.

Grant Super concedes that those dealing with recently sanctioned Russian entities, from jurisdictions that have not opted to join wider Western blockades against Russian wealth, might be inclined to use cryptocurrency to obscure such transactions, but he notes that the move into crypto payments far predates the recent war in Ukraine.

For the most part, he believes the motivation for using crypto is to use discounts to attract the business of the crypto-enriched. "Crypto kids", as he calls them, are a significant source of new wealth and that's an opportunity for sales.

Giles Whitby-Smith, CEO of Bitcashier, a BitPay competitor, adds that yacht brokerages – his primary customers in the sector – rarely want to receive crypto directly because of its huge volatility.

They do, however, want to be able to

Given the interconnection between crypto, NFTs and marketing, the expectation is that moving into the space can drive growth in the core business of selling real yachts, thereby boosting everyone's bottom lines

take advantage of the additional form of revenue stemming from the newly crypto wealthy.

While the discrete nature of the industry makes it hard to put a firm number on the total value of cryptocurrency transactions in the sector, Whitby-Smith estimates that up to \$75 million (£61.8 million) has probably already been transacted in cryptocurrency.

Whether that makes for a sustainable industry in a rising interest rate environment and in the midst of a cost-of-living crisis is harder to determine at this stage. Bitcashier, which also services transactions in other high-value luxury markets, is only just breaking even.

Given the interconnection between crypto, NFTs and marketing in general, the expectation, however, is that moving into the space can drive growth in the core business of selling real yachts, thereby boosting everyone's bottom lines over the longer term.

As Marco Casali, one of the yacht designers working with Cloud Yachts to make NFTs, says: "As you know just a small part of the HNI individuals that could be really owning a yacht." This is a unique advertisement for our business."

Please expand phrasing to make clearer.