

# Pre-owned market '08

AIN SPECIAL REPORT

*Last year demand for pre-owned business jets and turboprops remained strong. High oil prices and financial turmoil, however, have applied the brakes and inventories are reaching new highs. Buyers are waiting for the deals to come to them, leaving airplanes languishing on the market longer and sellers accepting less just to get out of the market.*



## Business jets: turbulence in the second half

by Bryan Comstock

If an aircraft seller shouts out that he has a screaming deal, but the buyer refuses to hear him, is it a deal? That's about where this market is right now, but the year didn't start out that way. In fact, during the first two quarters aircraft brokers' phones were lit up with prospective buyers at the other end of the line, many of them international, pursuing aircraft and subsequently closing transactions.

Come July, however, those same phones and buyers went quiet, and the silence was deafening. Everyone was prepared for a summer slowdown, and this summer didn't disappoint. On top of that, insiders had already begun to speculate that the typically robust fourth quarter was going to be dreadfully flat. While an election year can serve as a catalyst for a slowdown, this year it was overshadowed by the much more daunting

financial crisis and looming threat of a global recession, which continues to cast its pall over the industry and most likely will for several quarters to come.

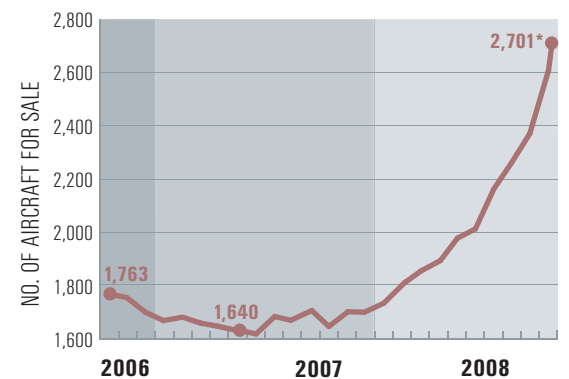
Perhaps the only silver lining is the quickness with which the market tanked. The last downturn seemed like death by a thousand cuts, where sellers rode the market down \$100,000 at a time. This go-round is less about how much sellers are going to lose and more about just getting out. Right now, getting out is not so easy. At the beginning of the year, there were just over 1,700 aircraft on the market; that number is now 2,701. The previous high inventory mark—reached five years ago—was roughly 2,050. This year we hit that figure in June and it continued up from there. While that looks like a big jump, consider

that between 2003 and today an additional 4,450 new aircraft have been added to the worldwide fleet. The percentage of the fleet that is currently for sale stands at 16, yet when you eliminate aircraft older than 10 years, that figure drops to fewer than 10 percent for sale at present, a number generally considered to be a normal supply.

Prices have now at least been reduced to a level where market watchers—read: opportunistic buyers—are starting to call again if not to buy then at least to take the pulse of the market as they plan a future purchase. While these buyers can pull the trigger on an aircraft purchase whenever they want, as anyone selling aircraft has found, few who have acquired this magnitude of wealth like to see it diminished in any way, especially on a discretionary

### INVENTORY OF USED BUSINESS JETS REACHES NEW HIGH

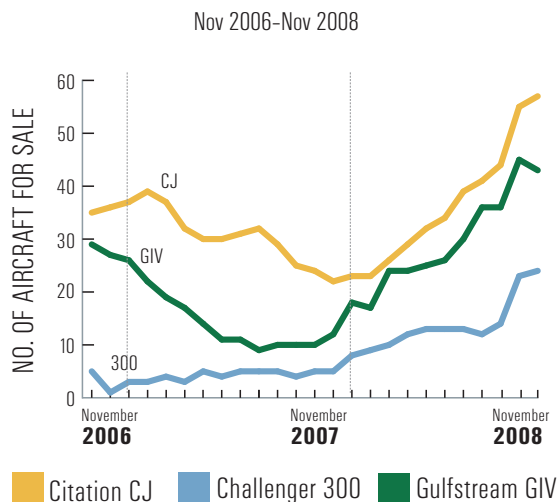
Nov 2006–Nov 2008



Source (all jet statistics and charts): Jetnet

\*as of November 17

## TWO-YEAR INVENTORY TRENDS OF ONE SMALL, ONE SUPER-MIDSIZE AND ONE LARGE-CABIN JET



purchase. They can easily afford to sit on the sidelines while the market comes to them.

One area that has been a sweet spot for sellers—and a thorn in the side of manufacturers—has been aircraft position sales, which get treated much as if they were a used jet as far as the sales process goes, in that they are typically handled by brokers for the most part and resold, or assigned. While the manufacturers do implement efforts to discourage this practice, it continues nonetheless. Some are easy to work with when reselling and others just are not. In the last couple of years we have seen sellers make seven-figure premiums on large-category aircraft positions. While sellers are still making premiums, their levels have eroded significantly.

Last year the Gulfstream IV became one of the most dynamic markets, rising to an all-time high of 30 for sale in 2006 only to pare down to fewer than 10 last year. Now, like so many other model types, it has retraced its steps, climbing through the old high-water market to reach 45, a quadrupling of choices since last fall. Frankly, many model types are in the same boat, so to speak. The Falcon 50EX presented just two offerings at this time last year, but has since climbed to 14.

One interesting airplane is the Bombardier Challenger 604, for which the build-up began in earnest in September. In fact, in August only 15 of the 365 built were for sale. Two-and-a-half months later that number had doubled.

These across-the-board inventory increases, some of them more notable than others, seem more dramatic in light of the fact that the pendulum swung so swiftly from one of the strongest sales environments to one of the weakest in recent memory. The same aircraft that were routinely breaking new price levels are now

the same ones littering the ramps. There is absolutely nothing wrong with these aircraft and you can't even say they are overpriced. It's just a matter of buyers—even opportunistic buyers—waiting for some compelling reason to buy. So far that hasn't come.

Gulfstream's G200 has experienced a doubling of choices from a year ago and stands at 25 today, representing 12-percent availability based on the number in operation. Average pricing hovers in the mid-teens, with a low of \$13.7 million and a high of \$20.9 million. The average number of days on the market is 200 days. So far only one has been sold per quarter.

The Falcon 2000 has also increased its choices, doubling from a year ago. There were only six for sale last year, meaning used choices plunged to only 2.5 percent of its fleet, compared with today's 6 percent. The current inventory is low and last year's was excruciatingly low if you were a buyer. The Falcon 2000 is spending about 150 days on the market before finding a new home. Pricing runs from the low \$17 million range to the \$26 million region. Only a handful has sold since the beginning of the year.

Consider the Challenger 300. Right now there are 24 for sale, five of which are future delivery positions, which places the model well above its 12-month moving average of nine. A half-dozen have sold this year and are taking about 100 days to move, according to aircraft research firm Aircraft Post. At the time of this writing, one broker reported that he had lowered the price of his client's Challenger 300 from \$20.9 million to \$16.5 million. The number of immediately deliverable aircraft that are for sale translates to 9 percent based on the 212 that are in operation. Rounding out this category is the Citation Sovereign, which nearly mirrors the

supply of the Challenger 300. The for-sale fleet has grown 26 since last year and here, too, a handful of delivery positions make up the number.

On the lighter side, Beechjet 400As jumped from 22 at the start of the year to 46 today, but despite the increase the type remains a few ticks below where it stood a year ago. The average price is \$3.1 million, with a high of \$4.5 million and the low at \$1.976 million. Another big jump came from the CJ2, which rose from 12 a year ago to 27 today. Posted asking prices are hovering between \$4.8 million and \$5.6 million.

With regard to VLJs, the Eclipse offerings have skyrocketed from 27 in January to 88, a significant number of those tossed onto the growing pile in the last few months. Jetnet shows 56 of those aircraft in operation, while the remainder consists of delivery positions. Prices run from about \$1.5 million to the \$1.9 million area.

Large-category aircraft, a market hot spot for the last few years, are beginning to show signs of some strain. The Falcon 900EX has significantly increased supply from four in January this year to 17 at present. This increase was widely anticipated as observers wagered the model type would build as 7X deliveries got into full swing. Pricing is bracketed between \$30 million and \$35 million. Speaking of the 7X, only a couple of positions have surfaced, one for 2010 and one for 2011 deliveries. Both are being touted in the high-\$40 million area.

The Gulfstream V has risen from zero last December to 12 today, and buyers who have seen supply choked off for a very long time are buoyed by this change. This slight uptick in offerings accounts for about 6 percent of the nearly 200 that are in operation. The price spread from highest

priced to lowest is \$6.5 million, with the average asking price at \$40.5 million. There are a nearly equal number of Global Expresses for sale; fewer of those were produced, equating to about 8 percent of the fleet on the pre-owned market. There were only four Globals for sale at the beginning of the year.

The final quarter of the year often ends on a high note as far as transactions are concerned, but if sales follow a linear scale, this year might be one of lower sales quarter-over-quarter. To no one's surprise, this is the exact opposite of what occurred last year. The quick build-up in inventory and the resultant unwinding of prices should actually get us to a market bottom sooner rather than later.

Right now, however, the market is stacked with more offerings than buyers can digest. All aircraft will sell; the question is, at what price? Those buyers who are not satisfied with the answer to that question might end up re-evaluating their commitment to selling and remove their aircraft from the market. This could help to stem the inflow of new offerings and stabilize the market, which would prompt buyers to re-engage. □

*Bryan Comstock is president of Jeteffect, a Long Beach, Calif.-based jet broker specializing in sale and acquisitions of private jet aircraft.*

*Sources: Jetnet, Aircraft Post*

*Report continues on next page*

# Pre-owned market '08

## Turboprops: demand remains for fuel-efficient airplanes but it's soft for out-of-production types

by Paul Lowe

When NBAA held its annual convention in early October, there was plenty of optimism about the market for pre-owned turboprops. Much of that sentiment had dissipated four or five weeks later, as credit became scarce and buyers re-evaluated their plans to buy aircraft. Despite a precipitous drop in the price of a barrel of oil from its high of almost \$150, some believe that a turnaround might not happen until 2010.

"This year it's saddening that I don't have really good news to report," said Mike O'Keeffe, senior vice president of aircraft sales and management functions at Fort Lauderdale's Banyan Air Service. As chairman of the National Aircraft Resale Association (NARA), he said that he talked with about 35 dealers at NBAA.

"For the first time, we are starting to see a little bit of softening," he said, citing the Pilatus PC-12 as a "perfect example." Whereas about 4 percent of the fleet had been on the market previously, that number is now up to 7 percent and the market is very slow.

"NARA members active in the turboprop market are seeing inventories increase and transactions slowing down from mid-year levels, but deals are still being made in this buyer's market," said NARA president Susan Sheets. "Most agree there is a 'hunker down' mentality, with potential buyers waiting to see if prices will drop further."

She said that members expressed concern about increased borrowing costs, more restrictive credit terms and tighter reins on capital—all of which have the ability to dampen sales activity. "The financial markets' impact on global sales is also worrisome, as international operators are not immune and the availability of foreign funds may be weaker, thereby further impacting sales activity," Sheets added.

NARA said other members are seeing more activity in turboprops than jets, but it has decreased since last year. King Air 350s are strong and B200s are selling if they have good equipment. Overall, however,

turboprop sales are witnessing a "stabilized decline."

With fewer buyers and a down stock market, the climate is not good. "People don't want to spend money in uncertain times," the association said.

As recently as the NBAA Convention, according to O'Keeffe, dealers were asked about a recession. He said that 75 percent answered "What recession? We're not seeing any slowing. Things are great. The markets are super."

But now, he said, the markets are dramatically different. "The overall synopsis is that current-production aircraft are still marketable, but the older non-production aircraft—the Turbo Commanders, MU-2s and Chyennes—have been very slow to sell," he said.

According to Amstat, there were 369 turboprop resale retail transactions in the third quarter, which ended on September 30. That was up 1.9 percent from 362 in the preceding quarter. Meanwhile, the number of aircraft available for sale or lease at the end of the third quarter was 1,060, up 6.6 percent from the second quarter. The inventory turnover months—the time it takes to sell off the current number of aircraft for sale based on the current transaction rate—increased to nine months from six months in the second quarter and eight months in the first quarter.

O'Keeffe said that the market for the King Air and new-production turboprops had been strong, but for the first time since the dot-com collapse "we are starting to see a little bit of softening." He suggested that sales



Beech King Air 350



Pilatus PC-12



Piper Cheyenne



Mitsubishi MU-2

of out-of-production aircraft are driven by bargain hunters who are looking for an economical aircraft that will meet their needs.

For some time, he said, inventory has been increasing while prices remained stagnant. Now, he said, "Inventory is increasing and prices are starting to drop. It's becoming a buyer's market. But if the airplane has the slightest hiccup it is going to sit."

### After Election Buyers Wait and See

Banyan Aviation works mostly with aircraft acquisitions for specific customers, as opposed to having airplanes sitting on the ramp, and O'Keeffe said he was bullish on the market until about a week before the elections. "But we've had numerous buyers say that with all of the political and economic turmoil, 'We are going

to take a wait-and-see approach; we are going to wait until the end of the year, after the presidential elections," he recalled. "And if a Democrat gets in office, we're going to wait a little longer to see what kind of changes we can expect."

O'Keeffe had just attended the National Air Transportation Association's Aviation Business Roundtable when he spoke with AIN, and he remains concerned that aviation will have a low priority in the Obama Administration.

"Because of the credit crunch and aviation being a fairly low priority in the new administration, the general consensus of many of my colleagues at NATA was that we won't see recovery in 2009 and if we are lucky it will be in 2010," O'Keeffe said. He called the credit crunch and the high fuel prices "nearly a perfect storm."

At long-time Cessna Service Center Yingling Aviation in Wichita, the sales department is a "supplement to other services" that it offers at Mid-Continent Airport. It provides a "significant amount of service" for the Conquest 441 and 425 fleets, as well as for the Cessna Caravan.

"Our maintenance activity is excellent," said Jerry Pickett, vice president of customer service programs. "We sell airplanes, but we don't do the volume" of other companies.

He said that many Conquest owners were concerned about the recent heavy inspection of those aircraft, but “now their anxiety has subsided.” What Yingling noticed over the summer was that high fuel prices had caused “quite a few folks to come back and take a hard look at the turboprop market” and rediscover the lower operating costs, their balanced field length performance and the overall features that the airplanes provide. On the Conquests, he pointed out, these include trailing-link landing gear, nose baggage space and overall creature comforts. “There is an awful lot of bang for the buck in these airplanes,” and he added that the overall heavy inspection gave an “excellent bill of health” for the Conquests.

“Overall I’ve sold more turbine aircraft this year than in many years,” Pickett said. “It’s been good for us. I think part of it is us getting re-established in the aircraft sales business after being out of it for a few years.”

But he noted that a number of Conquest owners took their airplanes off the market after they got some good solid reports on trends. Some people had put them up for sale because of the heavy inspections and the financial investment of the work.

Mark Smith, who works sales and acquisitions for Gantt Aviation in Georgetown, Texas, reminded that those who can afford a better method of travel will always take that option. “But that option is not going to cost them as much as it did last year,” he said. “We have definitely seen a decrease in values on airplanes, not only in the turboprop but also in the jet market.”

Nonetheless, Smith sees a good market for “ready to go” airplanes, even if it’s an early serial number. “If it’s low-time, and everything is right with it, those airplanes have a lot of interest to people,” he said. “The question is, ‘Where am I going to get it now?’”

Contrary to popular belief, he said, there is still financing for

good airplanes for qualified buyers. He further noted that there was widespread speculation about bonus depreciation and accelerated depreciation before the election, and since the election his phone activity has increased 10 or 15 fold. “We are past the election now and I think people are trying to get back to business as usual,” he concluded. □



### Pre-owned Pricing Volatile

In view of the rapid rise under way in inventories of used business jets, **AIN** this year has decided against running the Amstat pre-owned prices that traditionally accompany this special report each December. We will continue to report on the overall market for used jets in alternate months' issues (in Bryan Comstock's Pre-owned Update column) and on used-market news as it happens, but a snapshot of prices during this global economic upheaval, as this section of the issue goes to press in mid-November, is too perishable to be of much value. When the outlook stabilizes, we will re-evaluate presenting the Amstat numbers. —N.M.