



Challenger 605

PRE-OWNED market '09

BUSINESS JETS: this year was tumultuous, but the market is near the bottom

by Bryan Comstock

Surveyors of used aircraft entered the year with little else to do but cross fingers and hope that the market plunge brought to the doorstep of the New Year would abate. Buyers slowly began to perceive value as prices fell 30 to 50 percent from their previous lofty perches. It seemed that the press—which had for several months filleted business jet ownership—had run out of negative things to say. The effects of their efforts, however, spilled into this year and stymied productivity by some operations that became their targets. The hostility forced many to take an introspective look, which caused some to place their aircraft for sale, if for no other reason than to appease stockholders. Of course, in some cases this was just window dressing; as the year progressed and the negative press subsided, companies were able to redeploy their jets and get back to business.

One of the brightest spots early on was the heightened level of interest from buyers outside the U.S. While there has been no shortage of buyers globally in recent years, their advance on the U.S. market was more noticeable than usual, perhaps due to the

curtailed buy initiatives of domestic buyers. Foreign buyers began taking advantage of a battered used aircraft market and the weak dollar in relation to their own currencies. In fact, at this year's NBAA Convention a foreign contingent was quite noticeable, perhaps due only to a lower turnout of U.S. attendees than in years past.

A slow change is afoot, as stimulus-induced improvement on Wall Street seems to be seeping into the used jet market. Jet buying activity usually trails an economic upturn by at least a couple of quarters, and it would appear this time around will be no exception. U.S. buyers are returning to the market, not in great numbers, but by a slow and steady march.



In fact, the total inventory for sale has been slowly evaporating after hitting an all-time high of more than 3,100 aircraft for sale last summer. With the final quarter historically one of the most active, we should complete six consecutive months of inventory reduction, a clear sign of the market's direction. As we have seen inventory pared,

As the recession took hold at the end of last year and fear replaced greed as the primal motivator, owners hung for-sale signs on aircraft and buyers vanished into the shadows, flooding the market and eviscerating values. A year later, buyers are dipping their toes back into the pre-owned pool as prices start to stabilize and sellers are resigning themselves to lower values.

we have also witnessed values reach what looks to be a floor above which some models are now trading.

There is still plenty of inventory, and the road to recovery has been paved with dollars left in the rear view mirror—millions of them! Not long ago, GIV-SPs were reaching into the \$30 million range, and now it's difficult to command that for a new G450, the successor model. Right now the GIV-SP inventory stands a tick below 30, slightly below its moving average for this year. While that might be an encouraging sign for sellers, consider that it's six times higher than the supply was in January last year, when there were only five GIV-SPs for sale. There is heat in this

Those early deals brought some clarity to the markets and a floor from which to trade. We are continuing to see activity, but now at slowly rising levels. While the price buyers have descended upon the low serial numbers, the quality buyers have yet to embrace the higher-priced aircraft that not long ago seemed to cross price layers with early serial numbered GVs. That action is starting to subside as the G550 market has tightened, lifting values of the predecessor models. This is but one of numerous examples of aircraft types that experienced unprecedented value destruction, creating one of the greatest buying opportunities ever.

Low-serial-number Aircraft Moving

Late in the summer of last year there were only 15 Challenger 604s for sale, but 12 months later that number had grown to 50, a high-water mark for the model. The inventory has declined slightly since, further signaling that inventory is gradually receding. The average asking price has drifted below \$15 million and the average number of days on the market stands at 285. The 604 has been trading at a rate of about a one per month for the year and has been bracketed around the \$10 million to \$14.5 million range, according to tracking service Aircraft Post.

The Challenger 300 market also appears to be gaining some steam. Not long ago, the airplane was one of the most sought after. In fact, a year ago it was impossible to find a Challenger 300 selling for less than \$20 million. Now none is priced above \$20 million. That might also explain why they are actively selling again.

Late-model aircraft, especially those that are in current production, can languish on

Some older aircraft—such as early serial number Learjet 45s—were selling while late-model aircraft went dormant because values were in freefall.

market though, and it might just be getting started. It began and is continuing with the earliest of GIV-SPs, which were trading in the low \$10 million range.

the market for long periods of time. Typically the most formidable competitor is the factory itself. In fact, this year there was scuttlebutt that one of the manufacturers sold a new aircraft for far less than any competing used aircraft that might be on the market. What seems to have occurred from time to time is that the factory (which might have had a seller default on a new aircraft) might exercise a liquidated damages (forfeited deposit) or similar and apply it to the eventual sale of that aircraft. Effectively, the new buyer did get a great deal and might in fact have bought the aircraft for well below current market value, but the factory ostensibly was made whole and booked the aircraft for what the initial buyer contracted it for, by applying the originally intended buyer's deposit toward that purchase.

That particular sale structure might be demolished if the buyers who are now returning to the market begin to grow in number. When factory pricing became market pricing, this might have contributed to a reduction in the late-model aircraft and aircraft positions. As the frenzy for late-model aircraft faded, so too did the premiums being paid for positions and late models. Once this occurred, the accidental speculator, as it were, was taken out of the market, not in a position to compete with factory-level pricing.

One of the more interesting observations during the downturn is that there were any buyers at all. Looking back at what was arguably the worst environment ever to buy a corporate jet, you had people—not many—buying jets. Of course, those buyers saw it was the best environment to buy a private jet. With nearly 3,000 aircraft for sale, deals are a long way from drying up and values abound in the current marketplace, but there's a sense that the market has bottomed.

The midsize cabin segment was clobbered as well. Learjet 60s, Hawker 800XPs and Citation Excels all plunged in price and rose in offerings. It seemed

like just yesterday Excels commanded prices in the \$7 million and \$8 million range; now they are in the \$4 million to \$5 million range. Learjet 60s have been moving recently at a rate of two per month, but in the last 180 days none has sold for more than \$5 million, whereas a couple of years ago they all did. The heat, it seems, is concentrated in the early serial numbers, which typically offer the lowest point of entry. The trading range among Learjet 60s has wandered between \$2.7 million and \$4.6 million since June. A year ago there were 49 for sale; that number ballooned to 79 by late summer but has since reversed course for a current supply of 66. Similarly, Hawker 800XPs ascended to 63 in the second quarter of this year but have since receded to 50.

Will Demand for Older Aircraft Rebound?

Until the last year, the aircraft mentioned above have enjoyed a fairly predictable trading pattern, but the economic chokehold arrested the normal deal flow and

selling. After all, the downside risk on aircraft that were priced low before the market collapse has been largely removed. In comparison, values on late-model, large-cabin aircraft might experience price drops in the millions. However, on older equipment, while the percentage drops may have been on par with the later models, somehow a 30- to 50-percent price drop on a \$1 million to \$2 million aircraft gave buyers a sense of comfort, or at least less cause for distress, as there wasn't too much farther to fall. In contrast, buyers in the late-model segment might have been fearful that a \$45 million aircraft going to \$30 million could conceivably continue to correct in seven-figure increments. We saw early serial number Learjet 45s, Citation IIIs and GIIs move, at a time when sales of most late-model aircraft were dormant. That's now beginning to change in the upper end, as pricing floors look to be more permanent than at any other time in the last 12 months.

The Falcon 50EX illustrates the condition a number of older aircraft are experiencing.



The inventory of midsize aircraft is slowly receding. In the second quarter there were 63 Hawker 800XPs available; that number now stands at 50.

In this case, as in the case of a number of other aircraft, successor models negatively affect their predecessor models, driving down pricing and vying for the attention of buyers. In the Falcon market, this means last year's Falcon 50 buyer is this year's Falcon 50EX buyer as prices of the later model have fallen into the zone where the predecessor model was parked last year.

The same parallels can be seen in the G550s affecting GV values, which impact GIV-SP values, which impact GIV values and so on. The same game of dominos plays out amid all the manufacturers and is one big reason buyers are returning. Last year's GV buyer might be this year's G550 buyer, last year's 604 buyer is now a 605 buyer, and generally this is without changing his allotted aircraft acquisition budget.

As this year winds down, the industry might look back to where it began the year and, with a wipe of the brow, give a collective "Whew." Until the ether fully evaporates from the various government stimulus programs, it's hard to get a sense of the market's ultimate direction. The fragility of the U.S. recovery should temper any unbridled enthusiasm, and that should bode well for the market. For now, buyers seem pleased with the new trading levels and sellers seem to be accepting the new reality. □

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Sources: JetNet, Aircraft Post



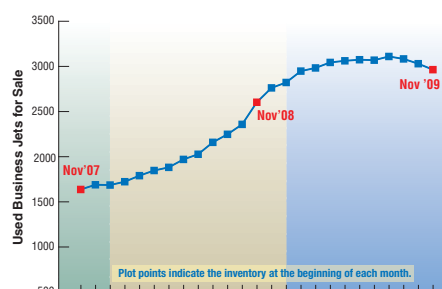
The glut of newer aircraft on the market has intensified pricing pressures on the predecessor models. For example, a new G450 now has difficulty commanding \$30 million—the value of a pre-owned GIV-SP before this recession.

Before the Lehman Bros. collapse there were 15 for sale; in the spring that number climbed to 24, before ratcheting back down to 15 today. There is only one reason fewer aircraft are for sale today: pricing. Mid- to high-teen pricing was the order of the day a year ago. Compare that with today, when the average asking price is less than \$12 million, according to Aircraft Post, which indicates the average sale price, based on 13 aircraft sold, is now less than \$9 million for the year.

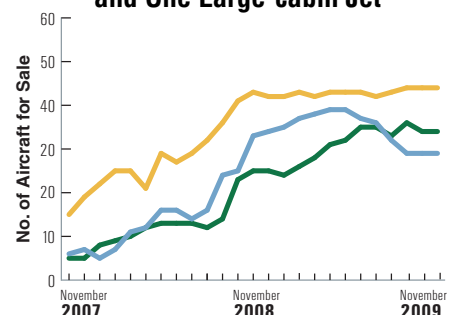
Last year's Falcon 50 buyer is today's Falcon 50EX buyer, as plummeting values have made newer, more capable aircraft available for the same price.



Two-year Inventory Trend



Two-year Inventory Trends of One Small, One Super-midsize and One Large-cabin Jet



Legend: Citation CJ1 (yellow), Gulfstream GIV/SP (blue), Challenger 300 (green)

Source: JetNet

created a pricing structure no one ever imagined, let alone accurately predicted. Consider then the sales environment for older models, some of which present anywhere from 25 percent to 35 percent of their total fleet size for sale. These types took a hit too, but it was not as noticeable, perhaps because they never really experienced the run-up in prices their late-model counterparts enjoyed between 2002 and early 2008. This segment's maturity has been scrutinized lately.

With 30 and 40 years of age on some airframes, the audience they attract has narrowed and their future viability remains uncertain. Many banks are hesitant about financing an aging aircraft, leaving fewer options for the receding stream of buyers. Right now about 25 percent of aircraft that were manufactured more than 20 years ago and that are still in operation are for sale. For aircraft built in the last 20 years, that figure is 13 percent. There are about 11,400 aircraft operating now that are age 20 or younger. The older-than-20 group accounts for 5,200 in operation.

Nonetheless, many older aircraft are

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TURBOPROPS: second half sees rebound

by Paul Lowe

A year ago, the storm clouds were already gathering on the horizon after several years of what could be described as a false sense of prosperity for the pre-owned turboprop market. Probably not the best climate in which to launch a company dealing in used aircraft.

But Tom Mekis, an industry veteran, formed Piedmont Aircraft in February, and as of last month he had sold 30 aircraft, 14 of them turboprops. The Winston-Salem, N.C.-based company focuses on a core market of midsize turbine-powered Beech and Hawker aircraft. The company offers turnkey pre-owned aircraft acquisition, management, financing and sales consulting.

"Even in this market—one of the toughest we have seen in years—there are buyers out there," said Mekis, who is president and CEO of Piedmont Aircraft. "It's a question of matching the right buyer with the right seller—at the right price. Our sales statistics speak for themselves."

Looking for Lenders

While no one is predicting a rapid and miraculous turnaround, National Aircraft Resale Association (NARA) president Susan Sheets reported that members are witnessing market stabilization in King Air, TBM, Piaggio and Pilatus models, which are holding their values well. There is speculation that King Airs will increase in value in this year's fourth quarter.

"Inventory levels are decreasing modestly, and there seems to be more activity," she said. "Financing is just as challenging as ever; bankers say there is credit, but customers seem reluctant to step up to the new [lending] paradigm." (See *Aviation Finance*, page 18.)

Lenders are looking at asset value, explained Mike O'Keeffe, senior vice president of Banyan Air Service in Fort Lauderdale, Fla., and immediate past chairman of NARA. He called it the "Rule of 25," that the combined age of the aircraft and the length of the loan will not exceed 25 years.

Asked how he would describe the credit market, O'Keeffe summed it up in one word: horrible. "Until credit frees up, sales are not going to recoup to any appreciable levels," he predicted. "What's really been interesting is that the bankers tell us that there is credit available, but there's a huge

"A year ago many banks would finance 100 percent for 20 years on just about any aircraft if the borrower was creditworthy," he said. "Today they are not as concerned with the creditworthiness of the buyer; today they are really looking at asset value. Many banks won't touch an aircraft that is more than 20 years old."

Under the "Rule of 25," O'Keeffe said, "If you want a 20-year amortization, you are buying a five-year old aircraft."

That paradigm shift in the banking world is really devastating corporate aircraft transactions. As a result, dealers are

Bell Aviation in Columbia, S.C., acknowledged that this year has been challenging for most people in the industry. But as challenging as it has been, he said, his company has been selling airplanes. In addition to King Airs, Bell sells the full spectrum of corporate aircraft, including Citations, Falcons, Challengers, Learjets, Gulfstreams, Conquests and even a few helicopters each year.

"In the last quarter, we've seen the activity level increase for sure," Friedman asserted. "We have a large-cabin Citation in pre-buy, we have a Conquest I in pre-buy, we have a Conquest II in pre-buy; we



Piaggio Avanti



Cessna Conquest I



Hawker Beechcraft King Air C90B

disconnect between what they define as acceptable credit and what the consumer defines as acceptable credit," he observed.

According to O'Keeffe, banks are looking for significantly higher down payments in the form of loan-to-value, offering loans with significantly shorter terms and evaluating assets more carefully than they did in the past.

seeing cash buyers who make ridiculously low offers on purchase prices because they don't have to deal with financing.

"A year ago you could pretty much get a deal done in a week—if the borrower had his financials current—and it was a relatively painless process," O'Keeffe said. "Today that process is more like five weeks."

Sales Creeping Up

According to Amstat, there were 289 turboprop resale retail transactions as of September 30 (the end of the third quarter), up 17.5 percent from 246 in the second quarter. Meanwhile, the number of turboprop aircraft available for sale or lease at the end of the third quarter was 1,488, down 3.7 percent from the preceding 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—decreased to 15 months in the third quarter from 19 months in the second quarter.

Cary Friedman, aviation sales manager at

thought we had a deal on an almost brand-new Piper Meridian, but that just changed now and it's in flux." But he was expecting a back-up offer.

In addition, the company has an acquisition for a large cabin airplane and a late-model C90B that is not U.S. registered and must be ferried here first.

"So we are seeing much more activity now than we were seeing six months ago," Friedman said. "Now, some people might tell you that they were busier in the first part of the year and they slowed down. I would have to say we were slower in the first part of the year and as the year has gone on—at least for us—things have started to pick up."

Piedmont's Mekis said that his company is not keeping inventory currently for a variety of reasons. For a number of years, the company (under several other names) bought inventory at wholesale and sold it at retail for a nice profit.

"In this market, where prices are dropping so rapidly, or have been dropping so

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Daher-Socata TBM

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rapidly—things are starting to stabilize—today's wholesale price is tomorrow's retail price," he explained. "And being caught with inventory is not a position we wanted to be in. So we've really just focused completely on putting a buyer and a seller together; we don't own the airplane." He added that Piedmont is working to get sellers to allow them to represent their airplane and marketing those airplanes and selling them to retail buyers.

Mekis believes the recession is a "deeper and longer cycle than we have seen before." He said his company's core market is King Air C90s, 200s and 350s, although it will handle other makes if the right deal comes along. Piedmont has long-time ties with what is now Hawker Beechcraft and tends to stick to aircraft with which it is most familiar.

"My perception of what the first half of the year was going to look like was pretty dismal," he admitted. "I didn't expect to sell any units and sort of built the plan to sell nothing for the first half of the year. And we were lucky and blessed to sell 24 airplanes, so the business exceeded our

expectations by quite a bit."

Everybody was out "smelling blood in the water," thinking they could just steal airplanes, he said, but sellers weren't necessarily in a position to let airplanes get stolen. They were, however, ready to

acknowledge diminished values.

"It's about tactfully educating sellers as to what their airplanes are worth in this down-cycle," Mekis said. "Sellers have to adjust their expectations and once you get that expectation set correctly, there are buyers ready to capitalize on depressed values."

The sellers understand that the monetary value they assigned to their airplane in 2008 is not what it is worth in 2009. Even King Air values, which are fairly stable, are down 20 percent to 30 percent from a year ago. The values are down and the number of transactions is down.

Piedmont has made deals on 30 airplanes this year. Mekis said that at the same point in a normal year it would have closed 50 transactions. "That's 40 percent off in transactions. Clearly, it's a down year."

A 25-year veteran in the business, he said this downturn is the deepest and the longest in his memory. "There have been long ones where production has been down, volumes have been off, transactions have been off, but this just seems to be going on forever," Mekis said, adding, "there seems to be no real solid end in sight because we are still all in this malaise."

Bell Aviation's Friedman thinks next year will also pose a challenge. "I think we've come to the realization that in '07 and '08 a lot of people had good years and there was a lot of business out there and you didn't have to work all that hard for the business," he said. "We got lulled into some kind of fantasy world where we thought it was always going to be that way."

He described the last quarter of 2008 and the first quarter of this year as a "shock to our systems" and said "we all found out, guess what, you've got to work to earn your money and you've got to go back to the basics."

"I'm sure as time goes on—in 2011 and 2012—things will be back to a normal level, but I don't think we are going to see the kind of activity we saw in '07 and '08 for a long time, and we just have to work harder," he concluded. □

