



Pre-owned Update: Inventory continues to decrease slightly

By: Bryan Comstock

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The current pre-owned aircraft market can be defined as consistent as inventory continues to inch down, month-after-month. Many people regard this consistency to be welcome news, considering where the market was a couple of years ago.

Market consistency is occurring despite some aircraft being grossly overpriced and some, arguably, being undersold. It remains perplexing that some large-cabin models, which are in extremely low supply, should be selling below year-ago levels. One thought is that after an owner has his aircraft on the market for a year or more and has witnessed its value deteriorate, the last thing he wants to do is hold his price and wait another six months to achieve it. Based on sales trends, if this continues, one might reasonably speculate that we are setting up for pricing improvement two quarters ahead.

There are around 2,625 aircraft for sale worldwide, including those in operation but not including nearly 100 delivery positions. Late model aircraft that are flown primarily in North America encompass fewer than 850 aircraft. If the search is confined to Europe, the number of available aircraft is about 450. Of course, targeting specific models slices these numbers much further. If the North American population of late-model jets seems to dwarf Europe's tally, the gap has been closing. Consider the population figures for aircraft in operation that are older than model year 2000—only 185 are based in Europe and 1,378 are in the U.S..

To see the industry spread its wings across the world is remarkable, but, to a used aircraft broker, a bit disconcerting at the same time. While crystal balls are not my forte, I do wonder what the used aircraft market will look like three to five years from now. According to JetNet's database, 10 out of the last 15 Dassault Falcon 7Xs and 12 of the last 15 Global Express XRSs were delivered to buyers outside the U.S. While it's conceivable that this is due to these manufacturers' being based outside the U.S., homegrown Gulfstream G550s show a similar trend, two-thirds of them having been delivered outside the U.S. It should also be noted that Embraer has delivered a small number of Lineage 1000s and Legacy 650s, but to date none has found its way into a U.S. hangar. Airbus and Boeing are also experiencing similar trends.

While Europe and the U.S. seem to garner a lot of the attention, Brazil, China, Saudi Arabia, Korea and other emerging countries have made their mark in the delivery books of all the manufacturers and it's likely a waxing trend. In three to five years, as some of the present-day buyers get ready to upgrade, there may be a lower U.S.-based supply of aircraft and an evolving international marketplace. The only change here is that U.S. buyers might have to travel more to complete their due diligence, something buyers outside the U.S. have had to do for years.

While activity has tightened supply of some of the most sought-after models there are still many fallen stars among yesterday's finest. Consider the versatile Falcon 50. There are more available than a year ago though down from its high of 57 this year. Currently 21 percent of the possible choices are on the sales block with \$3.7 million as the average price and asking prices as low as \$1.9 million. Granted the lower price wouldn't get you the pick of the litter, but it will get you to Europe or Hawaii.

GIV inventory has reduced from its glut of 49 a year ago to 36 today, a seven-point percentage drop, but prices are still crushed. This model would need another drop of equal proportion to rein inventory back to what is considered a normal range, and given what has occurred with the successor model the rate of depletion among GIVs may be hastened. Regardless, with pricing of Falcon 50s running from about \$2 million to \$5.8 million and GIVs \$6 million to \$8 million and a number of other similar aircraft priced so low, pricing for smaller aircraft has been pummeled to astounding levels. If some of these aircraft remain sublimated, they may enter a new market class dubbed by some the "throwaway market." No longer does a buyer need to get emotional about the future value of his aircraft. If a buyer can stomach higher operating costs, hunting grounds are fertile. Whenever the buyer's planned obsolescence program kicks in, he parts the airplane out, punts and tackles another. Not a buy program for everyone, just one that has become a reality.

The current market reminds me of the old NetJets S/II's. When they were retired from fractional use, they were parceled out to dealers who cleaned them up and put them back on the market and resold them. While some private S/II owners were concerned at the time that this deluge would affect the value of their aircraft, it never did. The former NetJets aircraft had much higher total time than the privately owned ones, and I believe it was the first time we ever experienced a two-tier trading price range. The market seems to be in that same mode now, but on a grander scale and with some subtle differences. The large, late-model aircraft are moving, and have been doing so for a while, and as soon as pricing on the older, higher-time aircraft hits that price tipping point, buyers will move in on them. In my opinion, that just hasn't happened yet, at least certainly not across the board. However, with prices as low as they are among so many of these aircraft I can't imagine that their time is too far off.

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