



Pre-Owned Update: Buyers dipping more toes in pre-owned waters

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Despite teetering over the abyss of economic collapse and having to overcome negative public perception surrounding corporate jet ownership, the used aircraft market has battled back, slowly and perhaps surprisingly consistently, chipping away at a glutted market. Month after month since late 2008, buyers have stepped into the market and pared back the numbers to arrive at the lowest inventory level in a year-and-a-half.

Obviously, the massive hit on prices is what lured buyers back into the market. As a result of the slow but steady buying activity and resultant decrease in offerings, prices in many categories have established new trading ranges that provide greater clarity about the various models, allowing buyers to more easily rationalize offering prices, which typically serves to accelerate future sales activity.

While pricing among a growing number of older aircraft continues to search for firm footing, sellers of many late-model aircraft are enjoying—or are at least relieved by—the renewed buying activity. Regardless, the increased buying and the reduced number of choices have made only a small dent in the total number of aircraft for sale, and deals abound still. While buyers may have missed the bottom of the market in some areas, there are screaming deals in others.

Aircraft markets tend to get oversold and overbought, and right now, for no reason other than a general lack of buyer interest, a number of markets offer excellent values. This disinterest can change quickly and some models may be poised to snap back.

Consider the Falcon 2000, Challenger 604 and Citation X, to name just a few. Trading action among these three ranges from lethargic to ho-hum. While the 604 market has begun to show signs of life, the airplane is selling at a rate of one per month and there are currently 38 for sale, a three-year supply at this rate. Average asking prices are just below \$13 million. The pricing is clearly the reason the airplane has attracted the renewed focus of buyers, who have brought inventory down from 50 a year ago.

Buyer apathy has descended upon the Falcon 2000 and Citation X markets, which could make the models the next “in play” aircraft due to some compelling pricing. Only one Falcon 2000 and two Citation Xs have sold in the last six months. There are a couple of dozen Falcon 2000s for sale with average pricing a tick below \$12 million and nearly 30 Citation Xs with prices averaging about \$10 million, according to sales tracking company Aircraft Post. It’s unfathomable that a couple of years ago these aircraft were trading at twice the price and with much greater market participation. So while the market is moving, there are countless

opportunities just waiting for buyers to pick off the tree.

Renewed Speculation

One recent sign that the market is more stable than at any other point in the last couple of years is that dealers, most of whom have been on the sidelines, are beginning to deploy their cash on speculative deals. Considering that few, if any, got out of the downturn unscathed, it's likely their collective buying will be tempered by a heavy dose of caution when they re-engage. One of the once-bitten, twice-shy areas that might be causing potential speculators some angst of late is the state of the euro-zone (or euro-TARP countries, as some are beginning to say), which could unravel some of the market improvements gained over the last 18 months. The last thing speculators want is uncertainty, which in this case could hold the prospect of another cluster of aircraft placed on the market. Given the number of aircraft that Europe mopped up during the last several years, developments are likely to be monitored closely.

Stock market volatility can also cramp the trigger finger on a speculative or non-speculative purchase. Consider early May's flash crash when the NYSE took a nearly 1,000-point intraday dip before recovering about two-thirds of that by day's end—hardly the makings of a warm and fuzzy feeling for would-be buyers.

In a seller's market these points would be noticed but likely dismissed as non-events. Given the current state of affairs, however, these episodes cause much consternation. Regardless, calls are coming in now from inventorying dealers that have funds to deploy for aircraft purchases. One twist is that the funds in more and more cases are coming from private sources; perhaps private investor types are seeing the easy money made during the past year diminish and shifting to business jets, where they believe there might be a much greater upside potential for their return on investment. In fact, while our company has remained a pure broker during the last 10 years (despite having access to both public and private finance sources, we never seriously considered inventorying), it is tempting given the current market. The downside risk largely has been mitigated when you consider that you're buying a wholesale deal in a market that has already seen prices wither by 50 percent and you're 10 to 20 percent below that (depending on model type/value). Could prices go down another 30 to 50 percent from here? While anything is possible, it doesn't seem probable. If such a thing were to happen, I suspect that would be an indicator of much more significant global issues that would make aircraft ownership the least of anyone's problems.

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