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Pre-Owned Business Jet Update

By Bryan Comstock

Demand for Business Jets Continues

Nearly 20 years ago, The New York Times ran a headline that read “Business May Cut Back, but Not on Its Private Jets.” The header on the next page read, “Corporate Jets Gain in Popularity.” I clipped the articles and when I rediscovered them recently, it struck me how history tends to repeat itself, and it seems this same headline applies today.

While pre-owned inventory is ratcheting higher after a surge of buying over the last year, there is no sign that businesses are cutting back on corporate jets. In fact, there is some industry scuttlebutt that Gulfstream’s latest flagship, though years from first delivery, is sold out through 2020. (This is an airplane that has a price tag of some \$60 million.) As for business aircraft gaining in popularity, this could be a perennial statement and comes as the result of many factors, perhaps the greatest of which is actually flying on one and then evaluating the stark contrasts between the option of cattle-class commercial and the private alternative.

Where IS The Market Headed?

Lately everyone wants to know what direction the market is headed but feels he already knows and would simply like to hear someone disagree. The market is slowing down, with inventory building in many different categories. The slowdown, however, seems to be more of a measured cyclical process following a period of unprecedented buying. This cycle might have been extended by the international theater, fueled at least in part by a weak U.S. dollar, coupled with prevailing security concerns and the lack of any viable travel alternative.

Also, during a transition such as this, it’s not uncommon to see sellers setting prices that were achievable six to nine months ago but now tend to be the catalyst for stagnation. So the market adds supply and buyers step back, leading to more supply. Nothing changes until sellers accept the fact that buyers set prices. When that reality finally sinks in, the market begins to trade again as it gives sellers and brokers a baseline against which they can rationalize a take price for their own aircraft or their client’s.

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Where IS The Market Headed (Cont)

Unfortunately, few are fast to act and the last downturn saw a number of sellers ride the market down \$100,000 at a time. I recall a client asking me what his chances were of getting an offer with an \$X in front of it. My response was, "Well, I can go to my files and give you one that we received a few months ago," referring to a previous offer of \$X+ that he had rejected. That's where this market is right now: values are not increasing. While that doesn't mean a seller has to wholesale himself out of an aircraft, the market is clear about where values are at any given time.

Why shouldn't values go down? Lending companies assume they will, and they have a formula and modeling in anticipation of this eventuality. While we have all witnessed a huge upside surprise among many aircraft types over the last few years, a stock trading company disclaimer comes to mind: past performance is no guarantee of future returns. After all, if business aircraft are truly business tools, they should perhaps be trading in a more linear scale than the ups and downs that define the past.

Position & Hold

Some who hold aircraft delivery positions have been turned into speculators as a result of the large premiums buyers are willing to pay, and we are likely to see this trend continue. In one week, I received a call from three different position holders—one with a Falcon 7X, one with a Global 5000 and the other with a G450—inquiring about what those respective positions are bringing. The 7X is bringing in the high \$50 million range for an aircraft delivering in the next 12 months; the Global 5000 is fetching in the low to mid-\$50 million range; and a G450 position is hovering around the mid-\$40 million range. The fact that one brokerage company received three calls of this nature in one week suggests that many others are contemplating a similar exit strategy. Of course, any huge influx of positions posted for sale could seriously diminish the prospect of achieving a home run.

As much as manufacturers try to quell speculation, there always seems to be a loophole. It's doubtful that many of the current position holders who are currently selling started out with the idea of making money on their purchase, but these guys know the value of the dollar better than anyone.

While the current position sellers might more accurately be called accidental speculators, the question has to be what about future position holders? Will there be speculation by design on the post-2010 positions? If so, what happens if premiums dissolve? It seems like a few years ago we had all the answers and now we are faced with a growing number of unanswered questions. Regardless, 20 years from now don't be surprised if you see the headline again, "Business May Cut Back, but Not on Its Private Jets."

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Outlook

Certainly the year is young and everyone is trying to figure out what direction it will take. From time to time I field inquiries from stock analysts who cover the corporate jet market to anticipate its direction. One such call came in the, after the upheaval at 85-year-old and fifth largest U.S. investment bank Bear Stearns. Witnessing a nearly 95 percent move down in the stock's price in a 10-day period left him wondering what's ahead for aircraft sales. While there seems to be no shortage of calamity in the U.S. financial markets, bizav, fortunately, is no longer solely U.S. driven and has so far remained more resilient than some would have imagined.

About Jeteffect

Jeteffect, Inc. was founded in 2000 and today has grown to one of the most successful business jet brokerage firms in the country with offices in Los Angeles, Dallas, Savannah and West Palm Beach. The company specializes in the sale and acquisition of business jets for Fortune 500 companies, high net worth individuals and some of the most important names in the sports and entertainment industries. Our professional sales consultants are dedicated to serving our clients in an efficient and confidential manner while providing them with the market intelligence to make the most of their aviation transactions.

Written by Bryan Comstock, Managing Partner of Jeteffect, Inc. and
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