



Preowned Annual Report

As inventories decline, a buyers' market may be fading.

by Bryan A. Comstock

THIS YEAR TURNED OUT BETTER FOR BUSINESS jet sellers than some analysts had predicted, as quite a few models staged impressive gains. Gulfstream's G550, Bombardier's Challenger 300 and Cessna's Citation CJ3 are among the aircraft that exhibited clear signs of a market traversing the slippery slope of the bust-to-boom cycle.

That doesn't necessarily mean that their values increased, but their inventories shrank—a change that generally leads to price appreciation sooner or later. For some models, the inventory reduction represented a fresh development. In other cases, the decline continued a trend that had begun before 2013.

Resigned to the misery that the market has dealt them over the last five years, sellers seemed to resist brokers' advice that they needed to reduce their asking prices in order to have any hope of rolling out of their current aircraft and into other ones. The only way to achieve equilibrium has been to lick the wounds on the sell side and take advantage of market forces on the buy side of the equation. For example, a GIV owner—who may have seen his aircraft's value plummet from \$15 million to \$5 million in five years—might take

some comfort from knowing that he can now buy any GIV-SP for what he paid for his current model and might even be able to get into an early GV for \$15 million or so.

Of course, the first question such buyers ask is, "Has the market stopped going down?" Having answered that query incorrectly at least twice since 2008, I now usually reply, "Values are so low today, what does it matter?" Admittedly, that's easier to say when you're not the one with seven-figure money at risk.

What's next? Some believe that 10-year-old and newer aircraft may be oversold and could actually tick up in the next 12 months. Though others might consider that notion preposterous, keep in mind that people usually start saying we have a buyer's or seller's market when we're actually beginning to see a change in the other direction. While buyers have held the upper hand for several years, we may now be witnessing a slight shift toward more equal power for buyers and sellers. ■

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Residual Values of 2008 Bizjets

(Current value as % of original cost)

| Aircraft | % |
|--------------------|-----|
| Gulfstream 550 | 82% |
| Falcon 7X | 81% |
| Phenom 100 | 80% |
| Global 5000 | 74% |
| Citation Mustang | 72% |
| Falcon 900EX | 71% |
| Falcon 2000LX | 70% |
| Global Express XRS | 69% |
| Falcon 900DX | 68% |
| Gulfstream G450 | 67% |
| Challenger 300 | 65% |
| Citation CJ2+ | 65% |
| Citation CJ3 | 63% |
| Citation CJ1+ | 62% |
| Falcon 2000DX | 58% |
| Citation XLS | 55% |
| Challenger 605 | 55% |
| Gulfstream G150 | 54% |
| Citation Encore+ | 53% |
| Citation X | 53% |
| Eclipse 500 | 52% |
| Citation Sovereign | 50% |
| Legacy 600 | 49% |
| Challenger 850 | 49% |
| Learjet 45XR | 48% |
| Gulfstream G200 | 44% |
| Hawker 900XP | 40% |
| Learjet 60XR | 37% |
| Hawker 850XP | 35% |
| Premier 1A | 34% |
| Beechjet 400XP | 29% |
| Hawker 4000 | 22% |

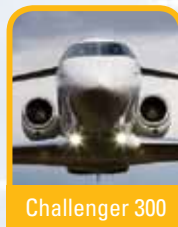
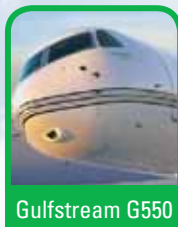
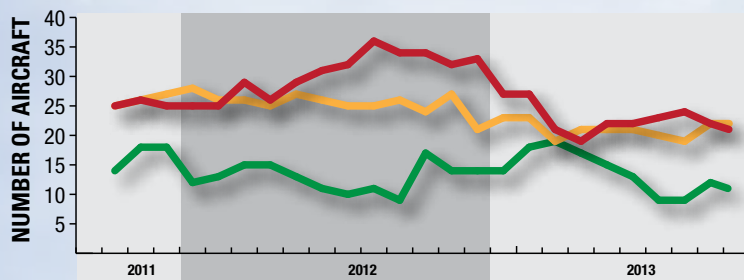
Source: Aircraft Value Reference Guide Vol. 13-3

TWO-YEAR INVENTORY TRENDS OF THREE BUSINESS AIRCRAFT

Each of the three business jets on this chart has enjoyed production runs that have resulted in more than 400 aircraft and counting. That alone qualifies them as popular models and further confirmation comes from how few are currently available—5 percent of the fleet or less.

Inventory levels of the Citation CJ3 and Gulfstream G550 have made some interesting up and down moves over the past couple of years while the number of Challenger 300 choices has remained fairly steady. For instance, in the fall of 2011, 25 were for sale and today there are 22, but consider that the production numbers were considerably lower two years ago than they are now. Though the number of aircraft for sale has held fairly steady, the increase in fleet size pushed down choices from 7 percent then to 5 percent now.

A similar drop attributable to increased production holds true for the G550, which has the tightest market supply of any business jet today with only 2.3 percent available, and the CJ3, which has 5 percent availability. Consider that when the market went off a cliff five years ago, G550 inventory spiked to more than 30, or nearly 15 percent of the fleet at that time. —*B.C.*

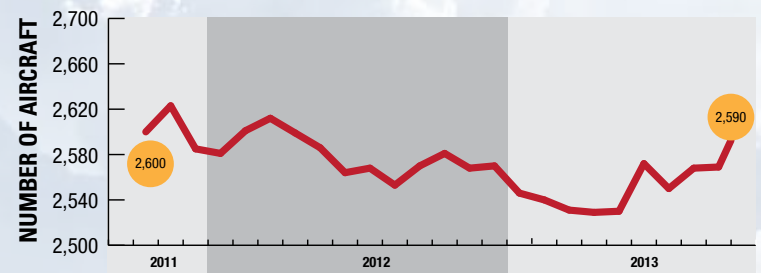


BUSINESS AIRCRAFT INVENTORY — THE TWO-YEAR TREND

The number of business aircraft for sale has not wavered much over the last two years and, in fact, about as many are on the market today as in the fall of 2011.

The demographics may have changed, though. If there's a blue-light special in aisle four, then aisle four is Europe, where more than 16.5 percent of the collective fleet is for sale, compared with North America at 12.8 percent and the rest of world at 11 percent. A further breakdown of 10-year-old and newer aircraft shows a nearly 5 percentage-point drop for both Europe and North America and about a 3 percent decline for the rest of the world.

"Are they really for sale?" you might ask of the nearly 15 percent of North America-based aircraft (nearly all more than 10 years old) that have been on the market for more than two years. Clearly they are overpriced, or perhaps they're priced in anticipation of a future recovery. Be that as it may, if you strip these older models out of the equation, North American inventory drops another 2 percentage points—close to the 10 percent availability figure often used to define an average supply. —*B.C.*



| SOME POPULAR PREOWNED MODELS | Aircraft Images | | | | | | | | | |
|-----------------------------------|-----------------|--------------|--------------|------------|-----------------|----------------|------------|-------------|----------------|-----------------|
| | PHENOM 100 | CITATION CJ3 | HAWKER 400XP | LEARJET 60 | GULFSTREAM G200 | CHALLENGER 300 | CITATION X | FALCON 2000 | CHALLENGER 605 | GULFSTREAM G550 |
| No. in Operation | 285 | 399 | 242 | 312 | 246 | 413 | 310 | 230 | 223 | 411 |
| Percentage for Sale | 6.6% | 5.0% | 9.0% | 15.3% | 11.3% | 5.3% | 9.0% | 11.7% | 6.7% | 2.7% |
| Avg. Price 2011 (millions) | \$3.0 | \$6.0 | \$3.1 | \$3.1 | \$9.3 | \$15.0 | \$8.5 | \$11.3 | \$20.8 | \$40.8 |
| Avg. Price 2012 (millions) | \$3.0 | \$5.0 | \$2.4 | \$3.0 | \$8.9 | \$13.7 | \$7.8 | \$8.3 | \$18.8 | \$39.9 |
| Avg. Days on Market | 252 | 162 | 372 | 252 | 176 | 187 | 163 | 384 | 229 | 243 |

The 10 randomly selected jets in this table are selling far faster than last year's group of 10—200 days faster on average. Last year's group spent an average of nearly 450 days on the market. Note also the two-year price changes, which are not as drastic as they have been on several past charts.

These spreads are averages derived from asking prices posted in Jetnet and can vary widely depending partly on how many "make offer" aircraft are omitted from the list. Consider the Falcon 2000, which shows the widest two-year price variance. In 2011, 72 percent of the 2000s for sale had "make offer" pricing, leaving a small fraction from which to calculate the average. In a falling market "make offer" pricing is common. Today, perhaps due to market clarity, more than half of the aircraft for sale have prices attached, affording buyers and sellers with more accurate market insight. —*B.C.*

Source [all charts and statistics on this page]: Jetnet, LLC