

# bailing out

MANUFACTURERS CAN'T STOP CUSTOMERS FROM RESELLING NEW-AIRCRAFT POSITIONS\_by Bryan A. Comstock

IT DAWNED ON ME THIS MORNING that though I'm a used-aircraft broker, I have \$90 million worth of offers on my desk for new jets—two aircraft that haven't even been built yet. So why are these transactions my business? Because when holders of new-aircraft positions look to resell them, they turn to used-aircraft brokers, not the jets' manufacturers, to orchestrate the deals. After all, the manufacturers are in the business of selling new aircraft; and the position holders rightly question the motivation level a manufacturer has to promote an already sold position over a new one.

In fact, while the resale market for new-aircraft positions remains upbeat, the manufacturers collectively grimace at position resales, as this activity may not bode well for future orders or revenues. That's because these resales shorten backlogs, since the new buyer won't have to go to the end of the line, won't push deliveries further out and will potentially deprive the factory of another sale. The last thing any manufacturer wants is to have "white tails" (unsold airplanes, so named because their tails lack the logos or colors of their owners) sitting on its ramp waiting for a buyer.

Right now, however, the number of positions available for resale—about 100—represents a small portion of the total number that buyers are holding. And while manufacturers commonly believe position resales have only a negative impact, some say they can benefit manufacturers. Consider that soon-to-deliver positions can be resold for more than the factory list prices—in some cases, \$10 million more—which should make it easier for manufacturers to justify those list

prices. Manufacturers can also use position resale prices to show buyers how well their aircraft hold value.

In fact, some manufacturers have been known to acquiesce to the assignment of the purchase agreement to a third party—a gesture that seems fair considering the lengthy time between order and delivery and the changes that can occur during this period. This is not to say a charge won't be levied for this allowance; reports have surfaced about \$100,000 fees to transfer a warranty and of a commission to the manufacturer of 1 percent of the gross sale amount. (Some position sellers have avoided roadblocks and fees by forming limited liability corporations and have been able to adhere to their contracts by selling not the positions but the LLCs—which just happen to have as their only asset an aircraft purchase agreement.)

Many manufacturers, meanwhile, have tried to extinguish the resale of positions, largely to prevent speculation. For example, some reportedly assert that they won't honor warranties if a position is resold. In the end, however, position resales have rarely been stymied and they likely never will be. No matter what efforts are implemented, people will continue to find ways to carry out one-off position resales, as they have for the last several years. ■

Bryan Comstock welcomes comments and suggestions at: [bcomstock@bjtonline.com](mailto:bcomstock@bjtonline.com).

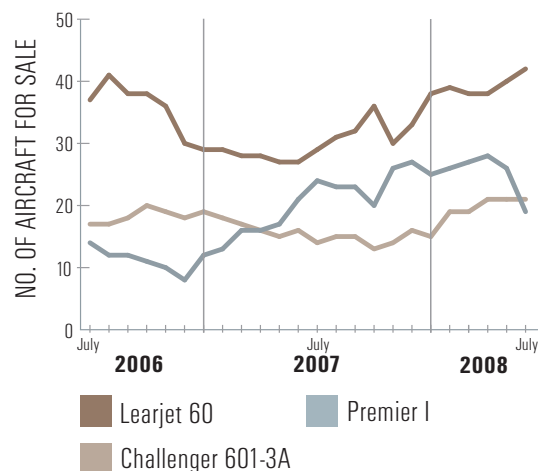
## SOME POPULAR PREOWNED MODELS

Model	No. in operation	Percentage for sale	Average price 2006 (\$M)	Average price 2008 (\$M)
HAWKER 800A	228	12.7	5.3	5.0
LEARJET 60	315	12.3	7.1	6.9
CITATION VII	118	12.7	6.8	7.0
CITATION CJ3	231	7.7	6.6	7.9
CHALLENGER 601-3A	59	11.8	14.5	15.1
GULFSTREAM 200	183	10.3	14.3	17.4
FALCON 2000	231	5.1	19.8	20.6
FALCON 900EX	196	5.1	*	30.4
GULFSTREAM IV/SP	286	5.2	24.2	30.6
GLOBAL EXPRESS	252	3.1	39.7	48.9

*Note: Averages are based on published asking prices. Such prices are not available for all aircraft on the market. Actual selling prices may vary.  
\*No asking prices given during this 12-month period. Average number of aircraft on market was two.*

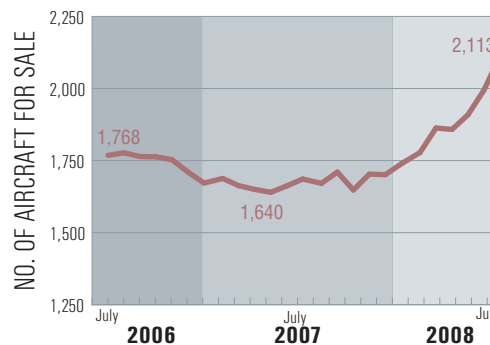
### TWO-YEAR INVENTORY TRENDS OF THREE POPULAR MODELS

july 2006-july 2008



### INVENTORY OF USED BUSINESS JETS STILL RISING

july 2006-july 2008



Source (all statistics and charts): Jetnet, LLC