

How to buy a jet

Follow these steps to assure a successful acquisition.

by James Wynbrandt

You've chartered, jet carded, maybe owned a fractional jet share, and now your usage and finances have reached a level where whole aircraft ownership might make sense. Good timing—several next-generation business jets are about to enter service and you can find historic values on



preowned aircraft in every category. But by themselves, these market conditions aren't sufficient reasons to buy.

Purchase a jet because no other solution will accomplish what you need to do as reliably and economically; because you can't afford to wait three hours for your fractional provider to have an aircraft available; or because, though ownership is more expensive than other private-access options, you feel its value justifies the cost.

Once you've determined that full ownership really does make sense for you, be sure you buy in a way that won't leave you disappointed. Get the aircraft that best suits your needs and that meets your operational budget, and get it at a fair price. Here are the steps professionals follow:



Johnny Foster,
chairman of the National Aircraft
Resale Association (NARA)



Jay Mesinger,
CEO of Mesinger Jet Sales



David Wyndham, president
of bizav cost-analysis firm
Conklin & de Decker

Get representation.

About nine out of 10 buyers engage aircraft brokers to handle purchases, says Johnny Foster, chairman of the National Aircraft Resale Association (NARA). Could you complete the transaction on your own? Perhaps, but why would you want to? It's complex and time consuming, requires expertise in several specialized fields, and is filled with opportunities for costly mistakes that can put your investment and safety at risk.

Moreover, not having a broker is a red flag to just about any seller's representative, says Jay Mesinger, CEO of Mesinger Jet Sales, as few such transactions close, due in part to the buyer's ignorance of customary industry practices. Even Fortune 100 companies with their own flight departments typically engage brokers to buy and sell their aircraft. NARA maintains a directory of member brokerages, and you'll find many reputable brokers listed in the Yellow Pages section of this guide (*see page 40*).

The cost of their services varies widely, but charges are typically fee- rather than percentage-based. NARA members point out that while real estate agents and yacht brokers are licensed, aircraft brokers are unregulated and require no training or bonding. Foster notes that NARA's 40 members represent just 3 percent of the world's registered aircraft brokers and dealers, but last year accounted for \$6.5 billion of business aviation's \$10 billion pre-owned retail sales market. Asked about the fee he charges, Foster demurs. "Any broker who is worth his salt will save [the client] his fee multiple times over," he says. "It's not about buying cheaper, it's about buying the best."

Select the right aircraft type.

Identify the aircraft type that meets your needs. "The mission drives the requirements," says David Wyndham, president of bizav cost-analysis firm Conklin & de Decker.

"What must the aircraft do to be successful in your organization?" To determine the best aircraft for clients, consultants and brokerages analyze travel patterns and preferences: where you fly, how often, with how many other passengers and how much luggage, your preferred cabin configuration, and of course your budget—not only for the purchase but for operation.

Indeed, the buy-in price is only "a very, very small component" of the cost of ownership, says NARA's Foster, who's also president and CEO of brokerage Ogarajets. "A lot of people who can write a check for \$2 million choke on the aspect that it's going to cost a million [a year] to operate the plane."

Don't necessarily expect a wholly owned aircraft to meet all your mission needs. If you usually fly with six passengers but occasionally use a large-cabin jet to carry 10, buy an aircraft that accommodates the smaller group, and charter when you need a bigger model.

Decide between new and preowned.

Platform options can include new and/or preowned aircraft, each with a subset of considerations. New aircraft feature the latest technologies and cabin comforts, and come with warranties that minimize maintenance concerns. But some new aircraft are proven platforms that have been in production for several years; in contrast, new-to-market jets, though more advanced, could experience entry-into-service issues or fall short of promised performance, notes Jeff Agur, CEO of business aviation consultancy VanAllen. He advises buyers of such models to make sure performance guarantees are spelled out in the purchase agreement.

Meanwhile, preowned inventory has recently included several almost-new aircraft, some with only ferry time



Jeff Agur, CEO of business aviation consultancy VanAllen



Robert Molsbergen, president of charter and management company ExcelAire

logged, at substantial discounts over the cost of factory-fresh models. These prices illustrate the steep drop in residual values that almost all business aircraft have undergone since the Great Recession, though declines are most dramatic among recently manufactured airframes. Over the past year (through the first quarter of 2017), average asking prices across all business jet categories continued their decline, with prices falling 1.4 percent for light jets; 4.6 percent for midsize jets; and 1.8 percent for large-cabin models, according to Amstat.

Source your jet.

Once you identify the aircraft type that meets your needs and decide between new and used, the search for the optimum available models begins. If you're buying new from a manufacturer, you can negotiate for items like additional crew training, maintenance coverage, or other enhancements, especially if you're bargaining with more than one airframer. (Even when they're purchasing new jets, buyers today often engage aircraft brokers to negotiate deal points and oversee the completion.)

If you're going the new jet route, have an interim lift solution in place. Depending on the manufacturer's backlog, it could take years before you get your aircraft, though earlier delivery positions are occasionally sold in the secondary market. (If depreciation tax benefits are a factor in deciding whether to buy new or preowned, note that 2017 is the last year purchasers of new aircraft can take full advantage of accelerated bonus depreciation under the current tax code.)

For preowned aircraft, whose sales numbers far outstrip those for new ones, brokers access global inventory through a variety of channels, which are also tracked by data services including JetNet LLC and Aircraftpost.com. You've probably surfed the web and seen abundant listings of aircraft for sale, equipage,

service histories, and asking prices. What's missing is the actual sales price, the crown jewel of preowned transaction data, which is critical for accurately establishing market value. Brokers know these figures via "interpolation" and market intelligence, says Mesinger. "You have to be in the market every day." Brokers also factor in the cost of complying with upcoming regulatory mandates, and use maintenance cost, price trends, and other data-analysis tools in calculating value and making bids.

Select a management company.

Unless you plan to establish a flight department, you'll need a management company to operate and maintain your jet. Some firms provide a full range of in-house capabilities while others may outsource all services. Either way, the company should be familiar with your aircraft model and transparent with all its fees and accounting.

If you plan to make your jet available for charter, as many owners do, check the company's charter demand for that model, and discuss your expectations for charter revenue and the availability you'll provide to the aircraft. Don't proceed under the misapprehension that charter revenue will make owning a jet profitable; it's intended only to offset some ownership costs. "I have seen very few instances in general aviation where an aircraft makes money," says Robert Molsbergen, president of charter and management company ExcelAire.

Have your acquisition team in place.

Line up your team of legal, title, and maintenance experts and financing sources so the transaction can proceed once you've located an acceptable aircraft and agreed with the seller on the purchase price:

Aviation attorney—Most companies acquiring an aircraft have in-house counsel, but you'll need an attorney who specializes in aviation to buy a jet responsibly. The attorney determines the best legal framework, such as an LLC or trust, in which to own the aircraft for liability, tax, and regulatory purposes, and handles a host of other legal issues relating to ownership and aircraft registration.

Title company—Establishing title has always been among the most essential elements in an aircraft transaction, but it has become more challenging with the rise of the global business jet market. Your best candidate aircraft might be under foreign registry, in a jurisdiction where liens and encumbrances aren't as well documented as they would be under the FAA's procedures in the U.S. Title companies have agents available in-country who can comb records to establish clear ownership, though you may also require legal counsel in the country of registration to search for such liens or other claims.

Maintenance technician—The prepurchase inspection is perhaps the most critical part of the transaction. This is when

the aircraft is examined to ensure that its condition is as advertised. As the buyer, you get to decide where the inspection will be performed, and who will conduct it. You'll need a maintenance technician who is thoroughly familiar with the aircraft type being inspected. That's especially important for aircraft with parts and systems that may be out of production or that may be near a major scheduled maintenance event, so that you can understand the expenses you'll face. The annual operating costs of some legacy aircraft can be several times the purchase price, and their use may be limited due to downtime needed for maintenance.

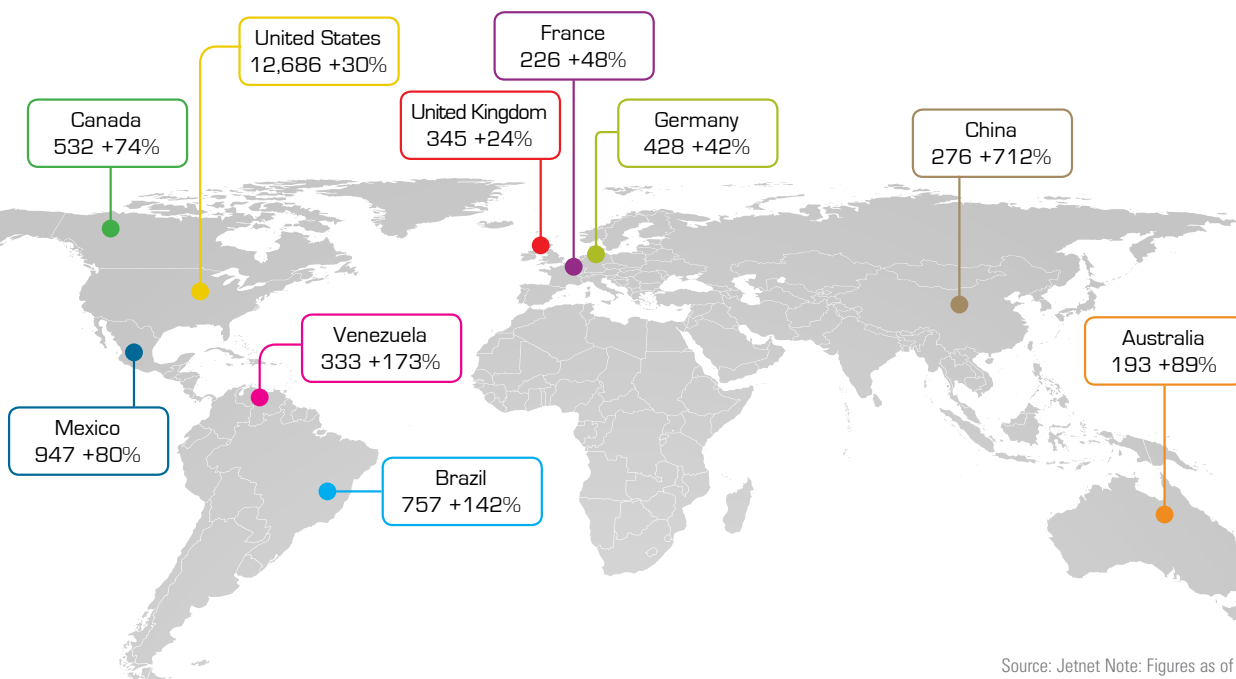
Financier—Lenders are funding aircraft purchases and refurbishments for creditworthy applicants, but arranging the financing takes longer than it did a decade ago, and depending on the age of the jet, you may need to put up 20 to 40 percent of the purchase price. **BJT**

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Where the Jets Are

The map shows the 10 countries with the most private jets and the number in each country as of last year. The U.S. has far more than the next nine countries combined, while European nations lag Mexico and Brazil. But the picture could change: the percentages

indicate the increase in the number of private jets in these countries from 2006 to 2016; and China, Venezuela, and Australia, three of the countries with the fewest bizjets, are rapidly adding them while the U.S. growth rate ranks among the slowest. —Ed



Source: Jetnet Note: Figures as of 2016.