



Preowned aircraft annual report

The recovery has been slow and mild, but it continues.

by Bryan A. Comstock

CONSIDERING WHAT 2011 SERVED UP IN terms of worldwide calamity—from government overthrows to devastating natural disasters to a global debt crisis—it’s a wonder anyone had the confidence and wherewithal to buy a corporate jet. Yet the year saw a continuation of 2010’s resurgence of buyer activity. This mild but sustained trend is providing a sense of relief for many sellers.

One difference between this year and last is that in 2011, many formerly dormant market segments are experiencing renewed buyer interest. Inventory in some of these heretofore lightly traded markets is still abundant and clearly the best of the best is getting picked off. While prices of GIV-SPs may have fallen about 50 percent from the peak, many older aircraft are selling at even bigger discounts—for 25 cents on the dollar, in some cases. So a midsize-cabin model that cost

\$4 million at the market’s high point may now be available for \$1 million. That’s a steep cut considering that it’s only three years older now and has perhaps another 1,000 hours on it. The reduction will certainly offset the higher operating expense that goes with an older model and the low cost of purchase should take care of any angst over residual value.

Another interesting development this year was an increase in the percentage of aircraft that are based in Europe. About five years ago, new airplane deliveries to that continent outpaced those to the U.S. for the first time. Now, thanks to a dismal economic outlook, those same aircraft are showing up on the market in sizable numbers. More than half of Hawker 850XPs for sale today are based outside the U.S. and the same goes for Learjet 60XRs. Similarly, 65 percent of late-model Citation XLSs for sale now are based outside the U.S.

With Europe still navigating stiff economic headwinds, it would not be surprising to see inventory continue to build in the region. Given the relatively weak dollar and the travel and export hassles inherent in shopping for a jet abroad, it seems unlikely that U.S. buyers can be drawn outside its borders when the supply on home soil remains bountiful.

IN ANY CASE, WORLDWIDE INVENTORY FIGURES

no longer suffice as indicators of the market's health; now you have to consider jet populations in specific regions as well as inventories of specific model years. Consider that currently in North America, 7.3 percent of the nearly 6,000 aircraft delivered between 2000 and 2010 are for sale. In Europe, meanwhile, for-sale signs are attached to 13.7 percent of the 1,850 aircraft delivered during that same time frame.

Asia is another story. Its jet market is only about a tenth the size of the one in the U.S., but it has enormous potential for continued growth and we'll likely see large percentage gains. During the last two years, the number of aircraft imported into China was more than double the number that arrived from 2000 to 2008. The palate for new jets will eventually lead to more used offerings, but for now, the



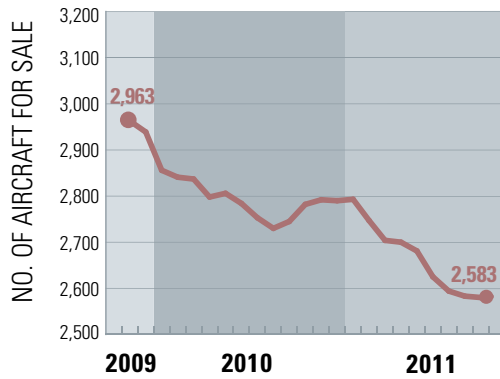
focus is on factory-fresh models. As for South America, its fleet of 2000-2010 models is slightly smaller than Asia's and just under 7 percent of that fleet is currently for sale.

It seems many buyers have become immune to the disaster-of-the-day scenario that has unfolded this year and have made a dent in the inventory despite it. Should the bad news stop, or we actually get some sort of positive stimulus, you could perhaps see the market make further and more accelerated advances. For now, it seems that buyers and sellers alike are content with the unhurried pace of the recovery. *(See preowned data on next page).*

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INVENTORY OF USED JETS INCREASES SLIGHTLY

October 2009-October 2011



Source (all statistics and charts): Jetnet, LLC

DESPITE COMMISERATION AMONG BROKERS about how difficult it has been to close deals this year, collectively they've been successful, as this chart shows. In a trend that began a couple of years ago, worldwide inventory has continued to decline at a measured pace, inching down to its lowest point since the economy went to hell in the fall of '08. Since inventory peaked two years ago when an average of more than 3,000 aircraft were for sale, the market has been on the mend. Worldwide inventory dropped recently to below 2,600, despite a steady flow of new aircraft being delivered, which increases the total fleet size.

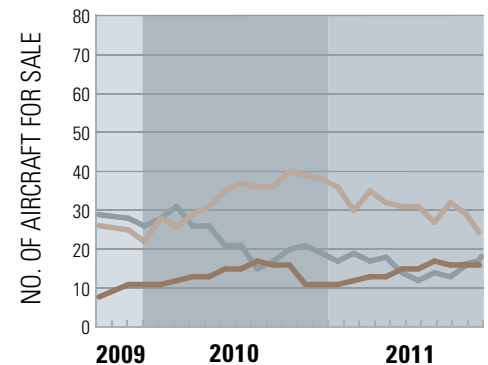
Europe's economic woes may end up delaying further improvement in market conditions worldwide. Or this may also be the start of a dichotomous market in which U.S. inventory continues to diminish while Europe's used offerings build. *-B.C.*

THE LATE-MODEL, LARGE-CABIN SEGMENT was the first to recover and maintains a tight supply, with firm and predictable pricing. Other market categories are not all yet rebounding well, however. A couple of years ago, when GIV-SP inventory increased to more than 30 aircraft for sale, prices plunged by 50 percent from the peak, which prompted buyers to reengage and pushed choices down to as few as 12, but they were back up to 22 recently. Even at the low inventory mark, prices didn't respond with the normally expected pop to the upside and so deals abound here.

There is a clear preference for the 2000 and newer model years, which remain in low supply. The fairly new kid on the block, the Phenom 100, experienced a yo-yo chart line, with supply dipping to a little more than 20 in 2009, jumping to 40 last year and ratcheting back down to the low 20s at present. The Lear 40/40XR, which shows how different models react in the same overall market, evidenced a reasonably steady build in the number of offerings over a two-year span. *-B.C.*

TWO-YEAR INVENTORY TRENDS OF THREE BUSINESS JETS

October 2009-October 2011



Phenom 100 Learjet 40/40XR G-IV/SP

POPULAR PREOWNED MODELS

Model	No. in operation	Percentage for sale	Average price 2009 (\$M)	Average price 2011 (\$M)	Average days on market until sold
CITATIONJET	353	15.5	2.1	1.6	397
LEARJET 31A	208	16.8	2.8	2.0	753
LEARJET 60	314	14.9	5.9	4.1	381
CITATION XLS	329	6	9.2	7.5	229
FALCON 50EX	101	12.8	10.6	8.9	968
CITATION SOVEREIGN	312	7.3	14.6	11.8	405
GULFSTREAM GIV/SP	286	8	18.7	13.7	172
CHALLENGER 605	154	4.5	23.9	21.2	236
ACJ 318/319	82	2.4	39.9	50.0	*N/A
BBJ 2	138	7.9	53.7	55.2	*N/A

*No used sales, (to date) in 2011

MANY OUT-OF-PRODUCTION AIRCRAFT are available in double-digit percentage quantities, while later models are in shorter supply. The higher percentages have often meant lower pricing and buyers appear to be taking note of this, as the long-dormant activity in those segments seemed to perk up earlier this year and perhaps explains the inordinate amount of time required to get some of these deals done as pre-buy facilities worked to return them to "airworthiness" condition. Not all segments are coming back yet, though. I did a double take when I saw this chart's days-on-market figure for the Falcon 50EX. The number accounts for three sales. *-B.C.*