

MARKET DIRECTION...UP, DOWN OR SIDEWAYS

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There is considerable rhetoric regarding the state of the pre-owned business jet market. When a slightly used G650 sells for \$10M more than its original cost new, the general consensus is our market is on the rebound. Conversely, when a low-time, 10-year-old Challenger 604 with an OEM engine program, recent 96-month inspection and paint and interior sells under \$10M, it generally indicates the market is crashing. However, our markets cannot be judged on one-off sales, nor should an ask price be indicative of the state of our markets. The pre-owned markets are driven in part by selling price, which in turn is influenced by economic factors such as inflation/deflation, GDP and depreciation.

The accompanying chart depicts year-to-date transactions for a random selection of current generation business jets. When considering the activity for the first five months of 2013 versus the same period in 2014, the number of transactions is showing a 16 percent increase yet the average market time is tallying about the same. However, when we factor selling prices year over year, it becomes clear our markets are far from stable.

Age-based depreciation will typically take an average of 5% off the current value on an annual basis. This of course varies by aircraft class, make/model, age, inspection status, etc. However, when we see a 20 percent delta on selling prices year-to-year, our attention turns to market erosion versus aircraft depreciation. Market erosion is not specific to business aviation but to most economic markets not influenced by government policies that control the floodgate of inflation.

For example, the Lear 45 showed seven year-to-date transactions for both 2013 and 2014 with prices dropping from \$3M to \$2.5M year over year for the same average year model. When we review the transaction detail of the 14 aircraft sold, there are no anomalies that would suggest that a model year

change would add or subtract from the results. But when we view the Citation XLS+ results, the three aircraft sold YTD 2014 include a 2012, 2010 and 2008, which is skewing the comparison to the one 2008 sale in 2013, yielding a higher average selling price in 2014.

HOWEVER, OUR MARKETS CANNOT BE JUDGED ON ONE-OFF SALES, NOR SHOULD AN ASK PRICE BE INDICATIVE OF THE STATE OF OUR MARKETS.

It should be noted that to generate a fair comparison year over year, we should be drawing the analysis for the same aged aircraft (eight years old in 2013 and 2014). However, as in the case of the G550, although we're comparing an average eight-year-old aircraft in each year, the transaction detail reveals five aircraft that were [newer] 2006 – 2010 year models that typically command higher prices, skewing what should be a year-over-year decline in price. If we were to interpret the numbers as displayed, it is easy to see that the G550 and Global XRS prices were subject to inflation while the GV and Sovereign were subject to deflation. The aircraft markets are showing no signs of stability.

The bottom line seems to indicate that the current level of pre-owned sales activity parallels the results of the last four years, which we are slowly defining as the 'new normal.' Subsequent to the price run up in 2008, the average selling prices in 2009 dropped anywhere from 30 to 50 percent, then each year thereafter the decline was more controlled along the line of five to 10 percent annually, resulting in our 'normal' market today, which yields increased sales and lower pricing (aka bargains).

See chart on page 3

January-May 2013 Sales

January-May 2014 Sales

| Aircraft | Number Sold | Average Sell Price | Average Mkt Time | Average Year | Number Sold | Average Sell Price | Average Mkt Time | Average Year |
|---------------------|--------------------|---------------------------|-------------------------|---------------------|--------------------|---------------------------|-------------------------|---------------------|
| Lear 45 | 7 | 3.0 | 253 | 2000 | 8 | 2.5 | 129 | 2000 |
| Lear 45XR | 4 | 4.8 | 264 | 2005 | 8 | 5.1 | 232 | 2008 |
| Citation XLS | 9 | 5.7 | 294 | 2006 | 6 | 4.7 | 215 | 2005 |
| Citation XLS+ | 1 | 7.5 | 512 | 2008 | 3 | 8.5 | 258 | 2010 |
| Lear 60 | 8 | 2.8 | 327 | 1998 | 11 | 2.2 | 441 | 1997 |
| Lear 60XR | 1 | 5.3 | 867 | 2008 | 4 | 5.2 | 253 | 2008 |
| Hawker 800XP | 12 | 2.9 | 266 | 2000 | 16 | 2.6 | 242 | 2000 |
| Hawker 900XP | 4 | 6.2 | 152 | 2008 | 7 | 5.8 | 413 | 2008 |
| Citation Sovereign | 5 | 9.4 | 277 | 2007 | 9 | 7.2 | 239 | 2007 |
| Citation X | 7 | 4.3 | 197 | 1999 | 5 | 6.0 | 210 | 2001 |
| Gulfstream G200 | 2 | 7.0 | 187 | 2003 | 8 | 6.7 | 234 | 2003 |
| Challenger 300 | 7 | 14.8 | 190 | 2008 | 5 | 12.6 | 202 | 2006 |
| Falcon 50EX | 3 | 5.7 | 232 | 2000 | 5 | 5.4 | 238 | 2001 |
| Challenger 604 | 17 | 7.6 | 330 | 2000 | 10 | 6.9 | 360 | 2001 |
| Falcon 2000 | 6 | 7.4 | 228 | 1998 | 10 | 6.9 | 308 | 2000 |
| Challenger 605 | 3 | 18.9 | 200 | 2009 | 1 | 17.0 | 225 | 2009 |
| Falcon 2000EXy | 3 | 16.8 | 210 | 2005 | 8 | 18.7 | 390 | 2008 |
| Gulfstream GIV | 3 | 5.3 | 335 | 1987 | 7 | 4.0 | 277 | 1990 |
| Falcon 900B | 9 | 7.5 | 549 | 1990 | 3 | 6.6 | 330 | 1991 |
| Gulfstream GIV SP | 5 | 9.6 | 190 | 1997 | 7 | 6.6 | 351 | 1996 |
| Falcon 900EX | 4 | 14.1 | 185 | 1998 | 4 | 12.5 | 322 | 2000 |
| Falcon 900EXy | 4 | 24.5 | 234 | 2006 | 0 | n/a | n/a | n/a |
| Gulfstream G450 | 4 | 23.0 | 172 | 2006 | 5 | 23.1 | 149 | 2008 |
| Gulfstream GV | 4 | 20.7 | 258 | 2000 | 1 | 16.1 | 891 | 2000 |
| Global Express | 2 | 21.0 | 333 | 2000 | 2 | 17.6 | 352 | 2000 |
| Global Express XR S | 2 | 35.5 | 168 | 2006 | 2 | 36.5 | 73 | 2009 |
| Gulfstream G550 | 4 | 32.0 | 414 | 2005 | 8 | 34.1 | 178 | 2006 |
| Total | 208 | 12.0 | 290 | | 163 | 10.8 | 289 | |