

BUSINESS JET PERSPECTIVES ON VALUE MARKET TEMPERATURE

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At the end of each year we tally the number of aircraft delivered into service (EIS) by manufacturer and model. We then calculate the number of pre-owned aircraft, as a percentage of the fleet that came on the market during the course of the year as well as the percentage of the pre-owned fleet that sold. The number of aircraft entering or on the market fluctuates almost daily as aircraft are withdrawn or sold. In turn, this information provides quantifiable data from which we can extract market conditions and direction. By gathering actual selling prices and ask prices (vs. 'Make Offer') we can then dissect this further to reflect market depreciation.

Today's concern is the total number of in-service aircraft of a specific make/model relative to the number of sales and their corresponding effect on residual values. A good case-in-point is the price point of the Challenger 604. Starting in 2009, the average selling price went from \$21 million in 2008 to \$12 million and available inventory spiked to 95 aircraft (26 percent of the fleet) by 2012. It would be easy to surmise that the price decline was a direct result of the total number of in-service aircraft. The production run delivered 365 aircraft during a 10-year time frame, from 1996 to 2006. Conversely, its nearest competitor, the Falcon 2000, delivered 230 aircraft from 1994 to 2006 and retained stronger residual values, as is reflected in today's selling price. Further, when we add to these production numbers the various iterations offered in the ensuing years (i.e., the CL605, 2000 EX, EASy, LX, S), the EIS totals broach the 540+ aircraft for the 2000 series and 650+ for the CL604/605.

Challenger 604					
Total on Market	66	75	95	87	70
Percentage of Fleet	18.1%	20.5%	26.0%	23.8%	19.2%
Total In-Service	365	365	365	365	365
Total Sold	18	21	27	48	32
Percentage of Fleet	4.9%	5.8%	7.4%	13.2%	8.8%
Average Sale Price	11.5	9.8	9.5	7.1	6.6
Average Year	2001	2000	2000	2000	2000

Falcon 2000					
Total on Market	44	37	37	37	48
Percentage of Fleet	19.0%	16.0%	16.0%	16.0%	20.8%
Total In-Service	231	231	231	231	231
Total Sold	11	11	14	11	21
Percentage of Fleet	4.8%	4.8%	6.1%	4.8%	9.1%
Average Sale Price	9.2	9.2	9.2	7.1	7.1
Average Year	1998	1999	2001	1999	2000

On the upper end of the spectrum, the Gulfstream G550 ended 2014 with 475+ in-service aircraft since customer deliveries began in 2003. This, in addition to the 192 GVs built from 1996 to 2002, brings the total to 665+ aircraft. The number of pre-owned 550s on the market has increased from 34 aircraft in 2013 to 55 in 2014, with the total pre-owned sales increasing from only 19 in 2013 to 22 in 2014, as the total in-service aircraft fleet continues to grow.

Gulfstream G 550					
Total on Market	27	27	31	34	55
Percentage of Fleet	8.9%	7.7%	7.8%	7.6%	11.5%
Total In-Service	302	351	399	448	477
Total Sold	12	12	13	19	22
Percentage of Fleet	4.0%	3.4%	3.3%	4.2%	4.6%
Average Sale Price	38.3	41	37.1	35.6	36.1
Average Year	2005	2006	2006	2007	2007

During the last 5 years (2010-2014), an average of 35 percent of the aircraft that came on the market, sold to end-users. This has remained fairly consistent year-to-year, fluctuating at most +/- 2%. However as the number of aircraft on the market, as a percentage of the fleet, increases, the sheer volume has the propensity to drive selling prices downward. As has been the case in the business jet industry for many years, near-term selling prices are typically tied to the most recent low-ball sale, which further exacerbates any hope of price stabilization.

Market Summary					
	2010	2011	2012	2013	2014
% of Fleet on Market	15.4%	13.6%	15.4%	15.5%	17.1%
% of Fleet Sold	4.9%	4.7%	5.7%	5.9%	5.9%
% Sold of Aircraft On Market	31.8%	34.6%	36.8%	38.2%	34.8%

We are at a pivotal point in our industry from the perspective that we've not seen such high production in the super mid-size to long-range business jets. In the small jet category, the Lear 35 and Citation II, which produced 676 and 734 aircraft respectively, are good indicators of the effects of high production and lower residuals. During the next couple years I believe we can approach the market with an element of certainty in that new aircraft production will inevitably continue and pre-owned market pricing will try to find its way among an over-crowded market.