

# Used business aircraft market dynamics

**Determining when to buy a used aircraft is more than a matter of studying supply and demand.**

Photo courtesy Gulfstream

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Corporate aircraft marketing forecasters predict that we're in for a ride. The Teal Group, Honeywell, Rolls-Royce and others all seem to be saying about the same thing—look for 10,000 business jets, worth \$140 billion, to sell during the next 10 years.

Forecasters typically don't include the new segment of very light jets (VLJs). They don't see the big numbers being thrown around by the proposed VLJ manufacturers. Consensus estimates seem to indicate 10-year sales of 2300 to 3000 aircraft for this market segment. That's huge from the perspective of integrating them into ATC. However, the impact is fairly minimal to the overall billings within the jet market.

The next 10 years are less clear for the turboprop market. This market segment has benefited from the overall recovery of the past 5 years, but to nowhere near the extent of the jet or single-engine piston mar-

ket. Going forward, results are clouded with the coming of the VLJ and its effect on turboprop sales.

When purchasing a used aircraft—such as a Gulfstream IISP with Aviation Partners Winglets—the buyer needs to pay attention to market direction, trends by aircraft type and prices before making his/her decision.

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There are a number of new technological developments on the drawing boards that will change the face of today's turboprop market, along with affecting future sales numbers. Estimates are for growth of 3% per year. Unfortunately, there isn't the same passion for this market that's in the jet sales estimates.

How do new corporate aircraft sales affect used aircraft sales? Or how will used aircraft sales influence new aircraft sales? Does the current state of the used aircraft market support what the experts say is going to happen?

## Market analysis and observation

Before proceeding, let me make clear that I'm using Jetnet data for all the following analysis and observation. This doesn't imply disrespect toward any other sources of information, such as GAMA. It is

simply a fact that all collectors and suppliers of statistics use slightly different sources and methodologies for compiling information. Mixing them can cause bad results.

In the majority of cases, the sale and delivery of a new plane causes a used aircraft to come onto the market. This affects the supply of used equipment. Consider that new jet deliveries have averaged more than 400 per year from 1996 to 2005, and used jet deliveries have averaged close to 1300 per year for the same period. Looked at another way, used jet sales have averaged 318% of new jet sales each year since 1996.

It is inescapable that the salability of a used plane opens the door and helps to pay for a new one. No doubt a company or individual thinking of buying a new aircraft considers how much will be paid for by the sale of the existing asset.

I'm less than certain that the absolute value matters as much, though. I sincerely doubt that, if

you told a flight department that its Gulfstream IV was worth \$20 million instead of \$24 million, they would choose not to put in an order for a new G450 or G550. In reality, this difference in value is highly likely with order backlogs greater than 2 years for new planes. If the price were \$10 million, it would have a greater effect on the decision to buy new. But I doubt if it would change the number of new sales if all else were equal.

As long as corporate earnings are growing at an annual pace of 3% or greater, corporate aircraft sales will remain good to strong. I believe earnings growth during the past few months has been in the 11% range. Looking at sales activity, along with new aircraft backlogs, late-model used equipment is selling almost instantaneously at prices higher than yesterday.

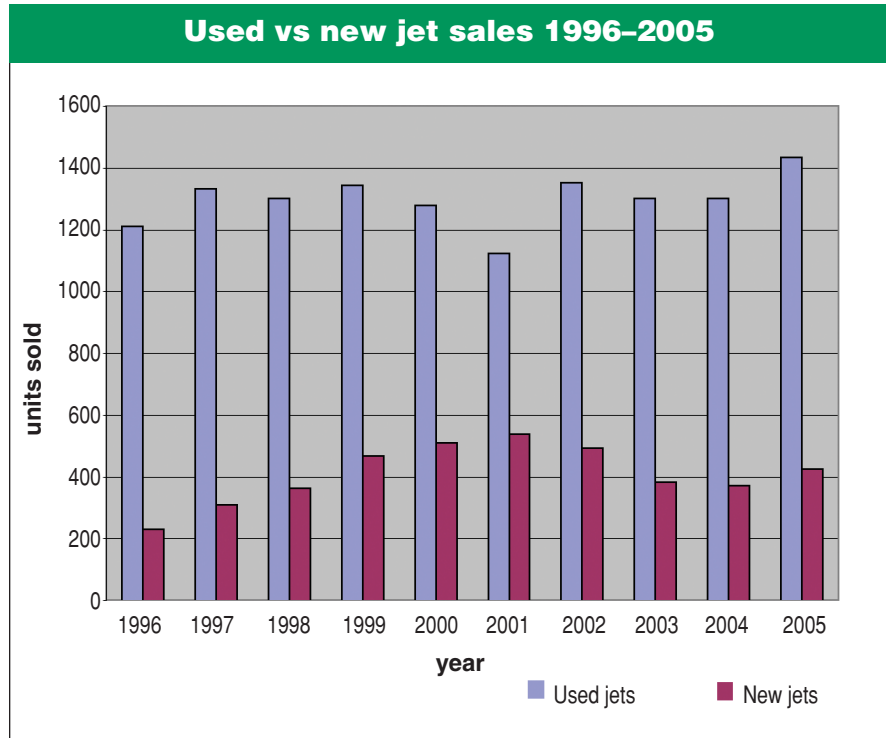
At the end of the day, overall earnings growth is the only real correlation between the new and used markets. Earnings dictate overall demand, while pricing in each market is a function of supply.

### Supply and demand

What we see happening in the used market portends well for new aircraft sales. There is lopsided demand for late-model “nearly new” aircraft. If we look at the percentage of corporate jets for sale that were made between 1999 and 2005, it is 5.79%. However, if we focus on those made from 1968 to 1998, the percentage goes to 15.45%.

It’s easy to conclude that there is a prejudice toward newer equipment within the used market. A finite supply of used aircraft with higher serial numbers should continue to push buyers into the manufacturers’ hands and backlogs.

Looking at the older aircraft market, as sales sag, prices go lower. Airplane buyers are pretty good at spotting value. The market will decide when there is better value in older airplanes, and as a result sales will increase. Then, as sales and prices increase, activity slows down.



On average over the past 10 years, there have been 3 used jet transactions for every new jet sale. This active market helps support prices, making it less costly to buy a new aircraft.

In previous years, it wasn’t too hard to plot at what price point an aircraft type, or age, would start to sell. Today, European and Asian buyers have an increasingly large presence, and the perception of their influence is even greater due to the promise of newly-opened markets. To these buyers, a 5-year-old plane is long in the tooth and a 10-year-old aircraft is antique. Add to this the rapid changes and obso-

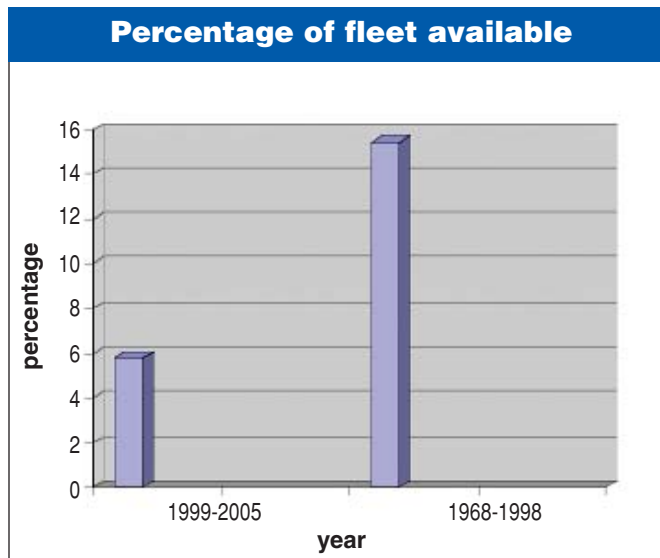
lescence in avionics, electronics and regulations that foster change, and you’ll find that the old market rules don’t apply.

### Pricing and availability

Nevertheless, any airplane will sell at a given price. Of course, we have to use some common sense. If 90% of all Lockheed JetStars ever made were available for sale, the price would drop to \$150,000 per aircraft, but I doubt it would generate sales activity.

Substantiation for this comes from observing market movement from Feb–Aug 2006. The percentage of IAI Astras available for sale reached 25%. Prices fell to below \$4 million and by August the availability had fallen to 17%. Likewise, when Challenger 601-1As reached the 25% level in February, prices dropped about 5% and availability fell back to a bit below 20%.

We can also observe the inverse, where rising prices increase supply, reduce sales, and increase the per-



Used aircraft availability follows a simple formula—the older the aircraft and its associated technology, the greater the percentage of the fleet available for sale.



A used plane enters the market each time a corporate flight department purchases a new aircraft. Companies operating multiple aircraft fleets—such as General Dynamics—play a key role in affecting market availability. (L-R) General Dynamics Dir of Ops Gary Rogerson and Capt Ramsi Noefl review a Gulfstream G200 POH and logbooks before departing on a flight from Signature IAD (Dulles, Washington DC).

centage of availability. For example, we can look at the GIV (non-SP) market between early 2005 and mid-2006. This market had dropped to 7–8% availability and prices climbed steadily.

Two things happened to increase availability—manufacturers started delivering new planes at the beginning of the recovery, which caused trade-ins to be put on the market. In addition, when prices started rising, a few GIV owners to decide to sell. Suddenly, the supply-to-demand ratio inverted, and the buyers backed away, sensing that prices would start to fall. Today, prices are down more than 10% and the market sits at nearly 14% availability.

Let's look at the Gulfstream III. At the beginning of 2005, almost 20% of the fleet was for sale. Prices fell to below \$5 million. By early 2006, availability was down to about 15%. Today, the market sits at a bit over 12% availability. Prices have rebounded to the \$6-million or better level—and, of course, trading has stopped.

The preceding examples allow an overview of the general direction the market will take over the next 10 years. Most buyers are less con-

cerned with what is going to happen over the next decade than what will occur next year. It seems easier to predict short versus long-term behavior—but this is not the case.

Long-term market behavior can be deduced by looking at general trends in combination with human behavior. For example, the airlines have focused on moving more people. In the process, they have forgotten how to make any one person feel special. It is also a trend that more people are reaching multimillionaire status.

It's human nature that, as one gains in wealth and position, one wants to be treated as uniquely special. Viewed in this manner, it becomes easier to deduce that the 10-year prediction for private aircraft travel will be a bright one.

Short-term forecasting becomes more of a guess because it is a function of timing. I believe that during 2007 new aircraft sales activity will slow down, and by 2008 we will start to see a cooling off in used aircraft sales. Corporate earnings may start to taper off soon as well. Profits have been going up more from costs savings and productivity improvements than from

sales increases, and are therefore not sustainable.

## Markets set the value

Since the mid-1970s, corporate aircraft sales have followed a pattern of retraction, recovery, exuberance and retraction. Assuming history repeats itself, which it seems to be doing, my observations are supported. Of course, these comments ignore to some degree the burgeoning offshore market and its effect on corporate aircraft sales.

Also ignored are the ways in which the manufacturers define themselves. Fifteen years ago, they held prices and reduced output. But earlier in this decade they dropped prices, moved products and kept producing aircraft. This change in strategy certainly could have affected sales patterns during the past 30 years.

It is impossible to determine what this means for any specific product or product line. The market is smart and will chase value. However, what buyers feel constitutes value is changing, mostly because the buyers themselves are changing.

There's a pretty good chance that some kind of a new plane is in your future—be it brand new or simply new to you. And don't rule out the idea that it might be a VLJ.

When it comes time to buy or sell, pay attention to the market's direction as well as the average asking prices. Buying or selling takes enough time and energy without extending the process by ignoring this dynamic.

Remember to look at trends specific to your aircraft type, as well. The market always has a general direction, but aircraft prices will behave differently within it. ✈



Bob Rockwood has been in the aircraft brokerage business since 1978. During his tenure at Omni Intl Jet Trading Floor he began writing *The Rockwood Report*, which discusses the corporate aircraft market. In 1986 he joined Bristol Associates as a managing partner. There he has continued to focus on the corporate aircraft market but expanded his reach to include commercial aircraft.