

Examining the pre-owned large cabin business jet market in 2015

An insight for European financiers

Report by:

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A contrasting picture

Until recent days, the consensus in the industry was (and to some degree still is) that large cabin business jets have fared better in the economic downturn than smaller aircraft which have struggled.

However, a few weeks ago, Bombardier announced that it will lower production of the Global 5000 and 6000 this year, as it is seeing a softness in demand from Russia, China and Latin America where buyers have favoured large cabin business jets in recent years.

A view shared by its competitors. At EBACE last month, Dassault Aviation reported that it sees continuing weakness in developing markets.

Barely a week later, Argus International reported that business aviation flying in North America climbed by almost 3% from a year ago, led by large cabin jets with a 6% gain. This was projected to rise in May by about 1%.

Yet as reported in various media a few weeks earlier, according to the latest data from WINGX Advance, business aviation flying in Europe was down by more than 4% from a year ago in February and by just over 0.5% in March, with flights between Europe and the CIS literally falling off the cliff ... and a notable decrease in large cabin jets' activity.

This illustrates a contrasting global picture. The Sharpwings predicts **continued volatility within the pre-owned market in 2015, particularly within the large cabin jet category.**

Business aviation in Europe has not fully recovered yet

Market outlook by region

North America

So far, the **United States**, where 60% of the business aircraft fleet worldwide is concentrated, **is expected to remain the most robust market**, reflecting the confidence in the trend of US economic recovery which benefits from declining unemployment, lower energy prices, and low inflation, affordable credit, and strong consumer sentiment.

This is being seen as good news for the entire industry, as it is expected to translate into continuing corporate profitability and interest in business aircraft. Time will tell if the recent appreciation of the US Dollar changes this picture and how.

Europe

This contrasts with the situation in **Europe**, where we have seen year-on-year declines in business aircraft operations following several years of little, or no growth.

The drop-off in European flying reflects the sluggish, deflationary regional economies as well as the bite of Russian-targeted sanctions, which have sharply curtailed flights between Europe and the CIS.

European charter operators have been hit by the economic sanctions imposed on their Russian clientele, traditional frequent users of business jets. As Russian owned business jets are often registered in Europe and operated under European AOCs, the effect of sanctions can be felt across European charter operations.

Now, the depreciation of the Euro on world markets will favour European exports to the US due to the appreciation of the US Dollar, even more if the Euro's weakness continues as expected by numerous analysts. This could ultimately be good news for business aviation in Europe.

Since 2011, major business aviation airports such as Geneva, Zurich and Paris Le Bourget, have lost 5% to 10% of their business aircraft traffic

Other regions

Geo-political tensions, in the **Middle East, Ukraine** and to some degree in **Africa cloud the outlook** in these regions.

Business aircraft sales into China have slowed, as illustrated by the lost confidence perceived during last ABACE in Shanghai in the wake of recent Chinese government edicts. This may also be the sign of a maturing market which could translate to **a shift in favour of smaller aircraft** than the large cabin business jets which have previously been far more popular in this market. In a nutshell, **the Chinese business aircraft market is expected to weaken this year** due notably to the anti-corruption campaign which will continue to hold down demand.

Africa is seen as a land of promises in the mid and long term.

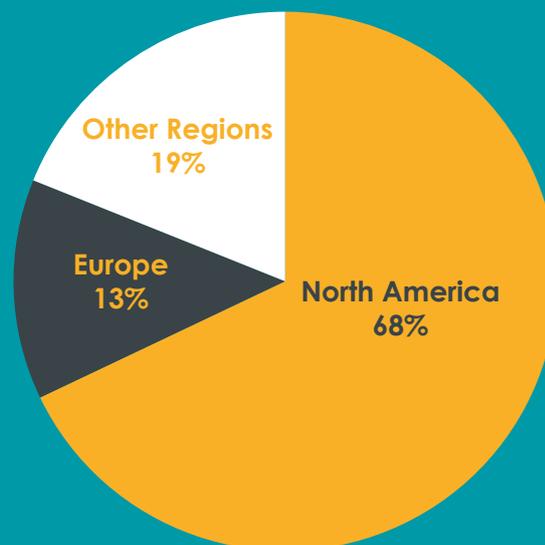
On the one hand, the GDP has grown 5.1% per year in the Continent over the past ten years and is expected to grow at the same rate during the next decade, according to Jetnet.

Conversely, still according to Jetnet, the same percentage of African high-net-worth individuals use business aircraft as in North America.

So a strong business aircraft growth is expected ahead in Africa in the medium to long term future. However, at the time being, there are approximately 470 business jets based in Africa, a modest 3% of the worldwide business jet fleet.

Business Jets Worldwide Fleet

Africa: 470 biz jets
Asia: 1,419 biz jets
Oceania: 204 biz jets
South America: 1,416 biz jets



North America: 12,613 biz jets
Europe: 2,454 biz jets

Source: JETNET

Values & the large business jet market

Although business jet pre-owned inventories have now returned to pre-2008 levels, there is still some **volatility in the marketplace.**

The **pre-owned business aircraft market has slowed in the first quarter** of the year as reported by JETNET. Furthermore, **transaction prices remain soft**, and in **decline** as the overall marketplace remains a **buyer's market.**

In the **large cabin business jet segment**, a number of additional specific factors may cloud the horizon:

- **Reduced long-haul flying** to and from Russia, China, Latin America and emerging markets in general.
- The arrival of a **new generation of long-range and ultra-long-range models** – Falcon 5X and 8X, Gulfstream G500 and G600, Global 7000 and 8000 – which will **put downward pressure on pre-owned residual values and transaction prices of older, large cabin business jets** that are well into their life cycle.

➤ Consequently, a **fierce competition** between the aircraft manufacturers may develop which **could translate into discounts on new aircraft prices.**

This would have a **depressing effect on overall market residual values.**

➤ The worry of seeing **leased large cabin aircraft** financed in 2007 – 2008 **being returned to financiers** and **coming on to the market.**

➤ The temptation for **sellers outside the US to lower asking prices**, taking advantage of the **strong US Dollar.**

➤ As a result, an **increasing number of sellers** for a **decreasing number of buyers.**

This may explain why we have seen **values of pre-owned large cabin aircraft** such as the G450, G550, Globals, Falcon 900 and Falcon 7X **falling** – sometimes by 10% – **during the last quarter.**



Pricing of large business jets has softened over the past few months

Price compression starts at the top and puts pressure in turn on the next downstream model and so on: for instance, some Global Express jets can be found at just below \$10 million, the Gulfstream GIV/SP are priced as low as \$5 million for an early unit, and climbing to just under \$11 million for recent models.

With this new set of parameters, there seems to be a consensus that there is a **shift downwards in the typical residual value curve**. This was still at 3.5% to 4% per year until recently, but now sits around **7% to 8% per year**.

New large business jets Set to enter service by 2020

2016	2017	2018	2019
Falcon 8X	Falcon 5X	G500	G600
Global 7000	Global 8000		

Average market time (days) Before being sold (as of end May 2015)

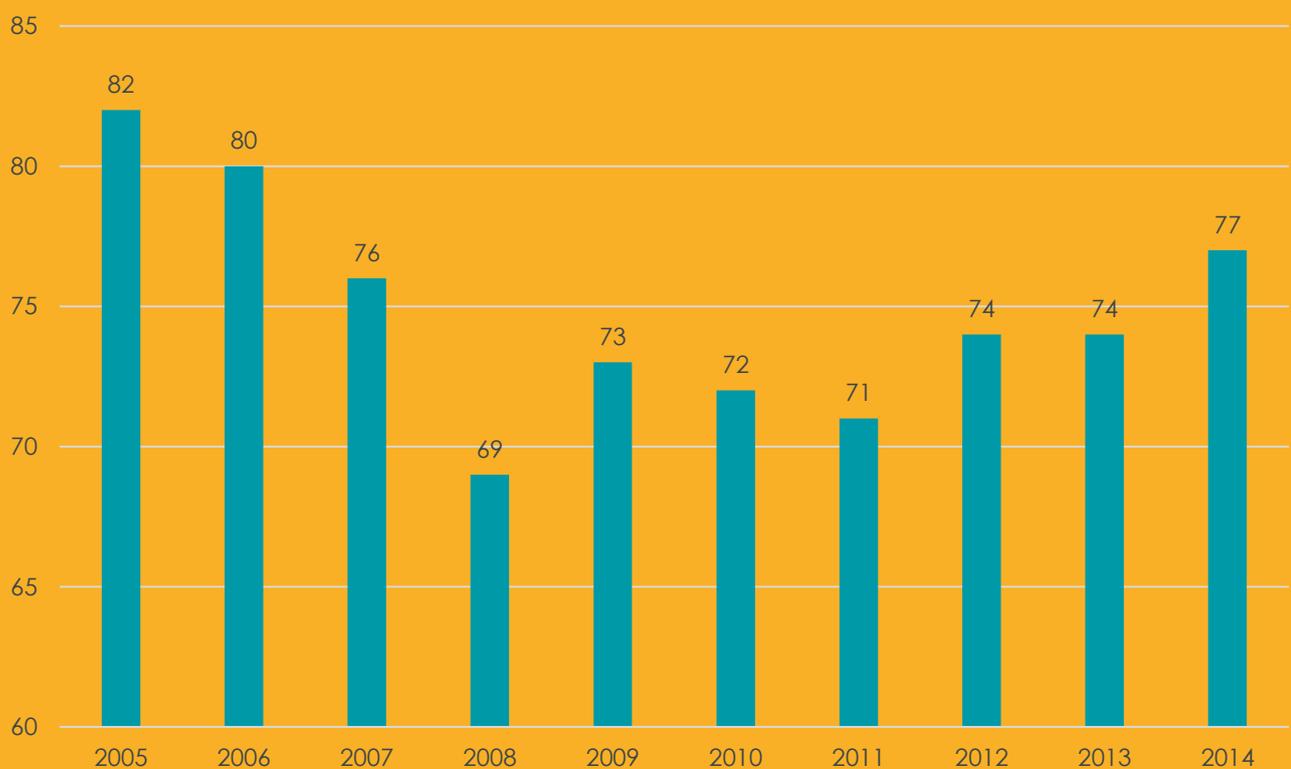
Global Express	Global Express XRS	Global 5000
391	261	221
G550	Falcon 900EX	Falcon 7X
188	224	377

Used business jet market trends over the last 10 years

In the **past ten years**, the market has remained a **buyer's market**, as more than 10% of in-operation business jets have been offered 'for sale'.

Over the decade from 2005 to 2014, **pre-owned sale transactions worldwide have been largely dominated by the North American market** (75% vs 25% for the rest of the world). The used market's lowest percentage in North America occurred in 2008 at 69%.

North America Market: Percentage of Worldwide Pre-Owned Business Jet Transactions over the past 10 years



Source: JETNET

Some areas to consider in order to sell a large business jet

Not only have pre-owned sale transactions been widely dominated by the North American market in the past decade, but the United States is expected to remain the most robust market over the coming year.

Over the past ten years, the market has remained a buyer's market and **The Sharpwings** does not expect a radical shift in the near future.

Therefore, it is crucial to consider whether and how sellers can meet the following typical expectations from US buyers.

All **maintenance records** of the aircraft are required to be in English, **complete and concurrent**.

This includes, original and consecutive airframe and engine logbooks to FAR 135 standards, weight and balance manuals, overhaul records, maintenance records, maintenance contracts, damage history, wiring diagrams, drawings, data, flight logs and all other records related to the aircraft.

The United States is expected to remain the most robust market in 2015

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Furthermore, US buyers expect aircraft to be in **full compliance with the manufacturers' recommended maintenance programmes** and compliant **with all known mandatory Service Bulletins and Airworthiness Directives.**

This requires proper documentation of all time, life, cycle limited components, Airworthiness Directives and mandatory Service Bulletins.

The importance of complete and concurrent aircraft records cannot be over-emphasised enough. These become more and more important as aircraft age or change ownership; as over time, records can be easily overlooked or lost.

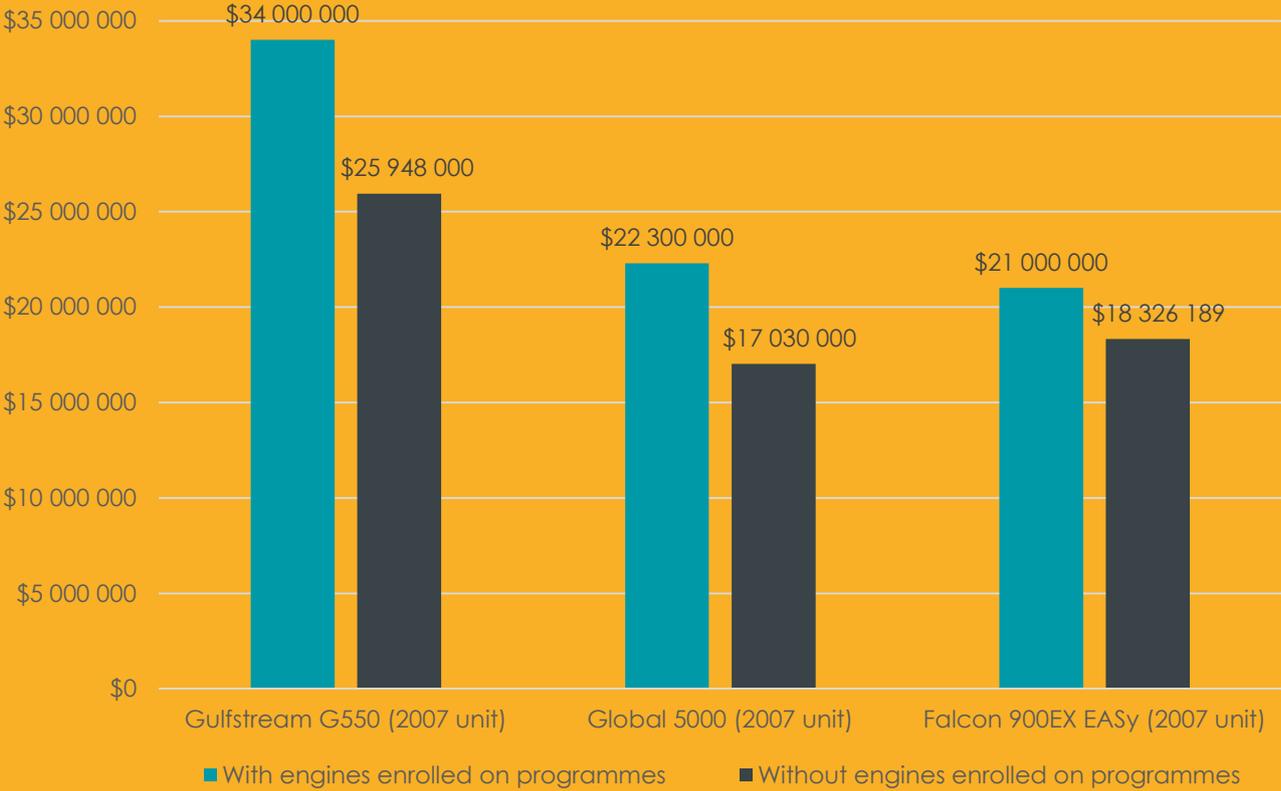
When an aircraft changes ownership and the maintenance records are not transferred to the new owners, it may not seem like an issue at first. However, it has the potential to become both an expensive and frustrating experience.

Typically, **these maintenance records will be thoroughly reviewed by the maintenance facility conducting the pre-purchase inspection** in order to determine whether the aircraft can obtain a United States Certificate of Airworthiness without restrictions or limitations.

This is of particular importance when the aircraft is imported into the United States for the first time.

There is a **strong market demand for engines to be enrolled on programmes** as it transfers the risks in the engine's operations back to the programme supplier. As such, it not only affects the value of the aircraft but it impacts its liquidity in the pre-owned market.

Average retail price: the enrolment programme factor



Source: Aircraft Bluebook Spring 2015

Gulfstream G500
 425 FH per year
 Rolls Royce CorporateCare©

Global 5000
 500 FH per year
 Rolls Royce CorporateCare©

Falcon 900EX EASy
 470 FH per year
 Honeywell MSP

Do not underestimate the importance of complete and concurrent aircraft records or of the enrolment programmes