

VALUE RETENTION – IN A DOWN MARKET

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With the purchase of a new aircraft, there are a couple underlying assumptions: (a) with a new delivery, an accompanying new aircraft warranty will cover extraordinary events (time and materials) for the first three to five years; and (b) the new aircraft should retain value with average utilization and equipment commensurate with a 30-year life cycle.

A number of events have transpired over the last few years to rattle the confidence of the buyer and disrupt a 'normal' value curve. Focusing on medium and long range business jets, first and foremost, the business aircraft industry has not experienced the sheer number of aircraft manufactured since 2008. This

equates to a 55 percent increase in inventories. Secondly, a normal market would typically consider 5-10 percent of the available fleet being offered as acceptable. However, with the increase in aircraft production coupled with zero growth in the global economic markets, a revised percentage of the available fleet on the market has ballooned to slightly over 19 percent in 2015 from 10 percent in 2008. From a unit perspective, total aircraft on the market in 2008 were 530 and in 2015 there were 1,600, a 300 percent increase! Meanwhile the percentage of aircraft on the market that actually sold remained essentially flat from 2008 to 2015 at 34 percent. This supply and demand imbalance creates the perfect storm for market saturation.

	2008	2009	2010	2011	2012	2013	2014	2015
*Overall In-Service	5317	5816	6224	6612	7039	7478	7894	8233
Overall on Market	530	758	794	785	1043	1240	1408	1600
Total % on Market	10.0%	13.0%	12.8%	11.9%	14.8%	16.6%	17.8%	19.4%
Overall Withdrawn	12	85	97	57	56	104	165	233
Overall Sold	181	250	306	294	403	496	552	557
Total % Sold	3.4%	4.3%	4.9%	4.4%	5.7%	6.6%	7.0%	6.8%
% On market that sold	34.2%	33.0%	38.5%	37.5%	38.6%	40.0%	39.2%	34.8%

*Medium and long-range business jets

The total number of aircraft in-service coupled with the percentage of the fleet available for sale has a direct impact on value retention. Consider an aircraft that sold new in 2007 has retained only 50 percent of its original cost just eight years later, or in a couple cases a mere 30 percent of its original

cost. Traditionally at 8-10 years the **aggregate** would expect a current generation aircraft to retain at least 70 percent of its original cost. However it seems, based on the numbers, these markets have experienced accelerated depreciation exacerbating any hopes of near term recovery.

	2007		2008		2009		2015	
	Price New	Avg Sale Price	% Retention	Avg Sale Price	% Retention	Avg Sale Price	% Retention	
Hawker 850XP	\$13,800,000	**		\$8,600,000	62%	\$4,800,000	35%	
Lear 60XR	\$13,200,000	**		\$8,500,000	64%	\$4,000,000	30%	
Citation Sovereign	\$16,100,000	**		\$12,800,000	80%	\$8,000,000	50%	
Challenger 300	\$17,900,000	\$22,000,000	123%	\$16,400,000	92%	\$10,300,000	58%	
Challenger 605	\$27,400,000	**		\$18,000,000	66%	\$12,500,000	46%	
Global XRS	\$45,500,000	\$55,000,000	121%	\$40,300,000	89%	\$26,100,000	57%	
Falcon 2000EXy	\$26,300,000	\$31,500,000	120%	\$21,800,000	83%	\$14,700,000	56%	
Falcon 900EXy	\$35,100,000	\$43,000,000	123%	\$29,800,000	85%	\$21,900,000	62%	
Gulfstream G450	\$34,800,000	\$43,000,000	124%	\$26,500,000	76%	\$20,300,000	58%	
Falcon 7X	\$42,300,000	**		**		\$23,200,000	55%	
Gulfstream G550	\$45,800,000	\$58,000,000	127%	\$38,300,000	84%	\$29,000,000	63%	

With little to no global economic growth, a burgeoning pre-owned inventory, dwindling demand and a slow start to 2016,

it seems there would appear further deterioration in value retention arenas or outright stagnation.