

MARKET PERSPECTIVE - 2018

After all the conjecture and speculation throughout the year, 2018 finished with mixed results. Some market dynamics fared better than others and a few select make/models showed a modest uptick in YOY value. Excluding VLJs and modified airliners, new business jet deliveries (entry-into-service) slipped from 471 in 2017 (3,927 total aircraft) to 467 in 2018 (4,393). The number of current production aircraft that came on the pre-owned market nearly mirrored those that entered service, showing 471 aircraft on market in 2017 and 446 for 2018. When expressed as a percentage, 10.2% of the available [current production] fleet came on the market in 2018 whereas 2017 showed 12%. In both cases, each year 450+/- new aircraft were added to the business jet fleet.

Current Production Business Jets		
Year	2017	2018
YOY In-Service Deliveries	471	466
Total Current Production In-Service	3927	4393
Total on Market	471	447
% on Market	12%	10.2%
Average Time on Market	280	222
Total (Pre-Owned) Sold	248	237
% Sold	6.3%	5.4%
% on Market Sold	52.7%	53%

For out-of-production [current generation] business jets, which total 6,777, 1,349 aircraft came on the market in 2017 compared to 1,274 for 2018, a YOY decrease of 5%. Expressed as a percentage of the fleet this would equate to 19.9% for 2017 and 18.8% for 2018.

Out of Production Business Jets		
Year	2017	2018
Total Out of Production In-Service	6775	6777
Total on Market	1349	1274
% on Market	19.9%	18.8%
Average Time on Market	388	359
Total (Pre-Owned) Sold	586	625
% Sold	8.6%	9.2%
% on Market Sold	43.4%	49.1%

Combining the results in the above-mentioned categories and displaying them as an average provides an all-inclusive YOY perspective. Clearly, as evidenced by in-service deliveries, new aircraft sales are waning, our markets are showing a 5% YOY decline in inventory, yet the number of pre-owned transactions shows a 4% YOY increase.

Summary		
Year	2017	2018
Overall In-Service	10702	11170
Overall on Market	1820	1721
Total % on Market	17%	15.4%
Overall Average Time on Market	334	290
Total (Pre-Owned) Sold	834	862
% Sold	7.8%	7.7%
% on Market Sold	45.8%	50.1%

A number of factors can be attributed to this and we're probably aware of most; however, one notable consideration could be the collision between new and pre-owned aircraft prices.

To preface, current market (available aircraft) data provides one perspective as it relates to inventory on the market or expressed as a percentage of the fleet. The core to understanding the market lies in selling prices and value retention. A couple key reasons is that in some cases, aircraft ask prices are owner driven due to unrealistic expectations or placing an ask price at 'Make Offer'; whereas when an aircraft sells, we have a price and make the fundamental assumption the transaction was between a willing seller and buyer, both armed with accurate market intelligence and fair representation. This benchmark or selling price should provide the fundamentals to price the next aircraft that comes on the market.

However, when one M/M experiences accelerated market depreciation and another has less [depreciation], aircraft owners may find themselves in a price war. Consider that a 2012 Gulfstream G650 sold new for \$65M, 2 years hence, the aircraft sold for 71.5M on the pre-owned market and based on 2018 sales, the 2012 aircraft has an average pre-owned price of 43.7M (2-650ERs and 1-650), translating to a loss of 33% in 6-years due to market depreciation. Now factor in a potential G500/G600 buyer about to spend 45/\$55M for a new aircraft, then finds he can purchase a pre-owned G650 w/ 2,000 hours TT, 7,000 nm range, 3,300' cabin altitude, etc., for \$43M. So as not to pick on one M/M, a Global 6000 is entering similar territory in that a 2012 vintage aircraft is selling on the pre-owned market for 28.5M and Bombardier would like to sell a new one for \$45M. A 2012 vintage Falcon 7X that sold new for 48.5M, selling for an average 23M on the pre-owned market in 2018.

Let's go one step further on pricing and set a budget of \$10M for the purpose of purchasing a new or pre-owned aircraft. We would like current cockpit technology (LCDs), 6' cabin height and a range of at least 2800 nm... the results are remarkable. To name a few, Challenger 300/605, Falcon 2000 EASy, G450/550, and the list goes on. How will new aircraft compete, especially those in the small jet category with price points new of \$10M, when so much more capability can be purchased for the same dollar in the pre-owned markets.

In terms of YOY value retention, if we look at pre-owned selling prices in 2018 for 15 current production business jets, the results are mixed. All things being equal, the G650/650ER showed an 11% combined loss YOY; Global 6000 down 10%; Citation XLS+ down 14%; Challenger 350 and Gulfstream G280, down 2% and 5%, respectively; Global 5000 down 4%. Gulfstream's G550 showed an uptick of 7% for 2018; Falcon 7X and 2000 EASy, up 5% and 3%, respectively.

	Citation CJ4	Lear 75	Phenom 300	Challenger 300	Falcon 2000 EASy	Gulfstream G450
YOM	2010 -	2012 -	2008 -	2004 - 2014	2003 -	2003 - 2017
Range	1940	2000	1870	3000	3850	4130
Cabin Height	4.7	4.9	4.9	6	6.2	6.1
2018 Price New	9.4M	10M	9M			
2018 Pre-Owned Price				7.7M	9.2M	9.7M
Average YOM				2007	2006	2007

As we look back at 2018 and with an eye on 2019, there still remains a good deal of uncertainty in the political arena and financial markets, and as is usually the case, that translates directly into business jet values. There's speculation concerning a recession in 2019 with some stating it's already began. In that event and as we've seen historically, we could expect an increase in preowned inventory, which would translate into price adjustments commensurate with the economic climate.