

# THE NEW FACE OF BUSINESS AVIATION



## Pre-owned sector sees slow recovery

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Capital, Corporate Aircraft Finance, expects jet values to increase as the economy improves and also that owners who still have a need for their aircraft will continue to fly. "Some owners may be unable to use their aircraft's depreciation, a major reason they elected to finance their aircraft with a loan," he told *AIN*. "In this case, owners may want to consider converting their loan to a lease, thereby realizing the value of their aircraft's depreciation through lower monthly payments. This allows them to transfer the aircraft's future value risk to the lessor, one of the major advantages of leasing."

Financing remains available for qualified buyers, according to Labrozzi. "For the most part, banks are servicing existing clients where they have deep relationships and focusing on aircraft younger than 15 years old."

Although the used jet market seems to be stabilizing, a lot of owners are reducing prices to try to sell their jets, according to Brian Paul, president of a newly opened brokerage called JetBlack Aviation, with offices in Sarasota, Fla.; Los Angeles; and Washington, D.C. The entire market has shifted with so many jets' prices dropping so much, he said,

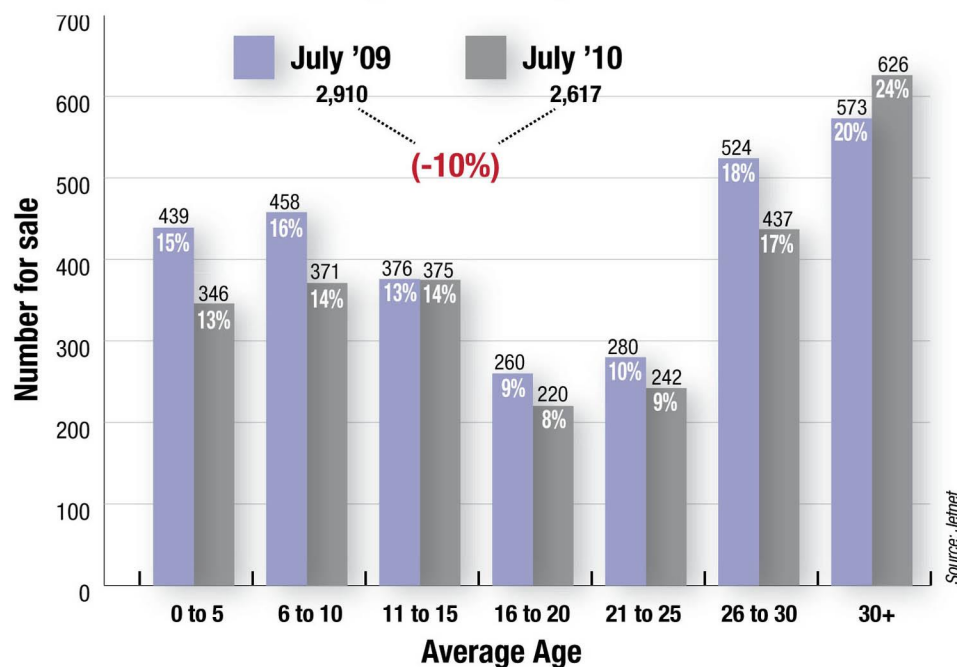
and buyers can get a lot more jet for their money. Citation Vs that used to sell for \$3 million are going for \$1.5 to \$2 million. One Gulfstream IV was priced at \$5.75 million, and prices range to around \$8 million, down from \$12 to \$20 million three years ago. Paul closed on a Challenger 600 recently that sold for \$1.5 million instead of the \$4.5 to \$5 million that it used to command.

JetBlack has financial backing enabling it to take airplanes on trade and assist with in-house financing, according to Paul. "Everything sells at a price," he said, "but we don't have buyers even at the right price. It's a big wait-and-see game."

One disadvantage of older aircraft is the cost of maintenance. And owners trying to sell Challenger 600s right now are facing upcoming 10-year landing-gear overhauls. Fifty percent of the Challenger 600s will require this work soon, he said, at a cost of \$200,000 to \$400,000. Engine program costs for Challenger 600s have grown recently, too, "and that has hindered the value," he explained. "Hourly costs and maintenance costs are why their value has declined so much."

Data from market analysis firm Conklin & de Decker supports that. "Aging has a profound impact on maintenance costs," according to an article titled "How old is too old?" by Bill de Decker. By the time a jet reaches age 30, maintenance costs are 2.2 times what they were at age five,

## Pre-owned Business Jets for Sale July 2010 vs July 2009



he noted. What is more important is reliability and availability. "Availability drops from the 95-percent range for aircraft up to 15 to 20 years of age to an average of 70 percent at age 25 and 55 percent at age 30," he wrote. The loss of potential revenue for a charter operator and availability for a corporate operator means that "at some point, an old aircraft is no longer economically viable and should be

withdrawn from service."

Like JetBlack's Brian Paul, Steve Gade, vice president of sales and marketing at Duncan Aviation, is at the front lines of trying to sell airplanes and services in this tough market. Some owners of older business jets are mothballing their airplanes (and Gade warns owners to be careful how this is done to ensure

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