



QUICK SEARCH:
 [Go](#)

ADVANCED SEARCH:
 [Go](#)

[Sponsored by: Air BP](#)

- [Latest News](#)
- [Aviation International News](#)
- [Airshow & Convention News](#)
- [AIN Defense Perspective](#)
- [AIN Air Transport Perspective](#)
- [Business Jet Traveler](#)
- [AIN alerts](#)
- [AINmxReports](#)
- [AINtv](#)
- [AIN Blogs](#)

Finance crowd calls bizav recovery into question

By: [Charles Alcock](#)
 March 26, 2011

by *Charles Alcock*

The business aviation industry has now passed rock-bottom in what has been a cyclical dip of historic proportions, but the pace and extent of its recovery remain far from clear. This was the main area of consensus among delegates to the International Corporate Jet & Helicopter Finance conference held in London in mid-February. There was also agreement that the way **finance** has been provided for business aircraft transactions needs to change and that the most likely origin of the industry's salvation will be the key emerging markets in Asia, Russia, the Middle East and South America.

At an excellent conference full of candid assessments of current trading conditions, the most forthright perspective came from Freestream Aircraft chief executive Alireza Ittihadieh. The aircraft broker predicted that the market for pre-owned business aircraft will remain flat for at least another 12 to 24 months, and may not completely emerge from the down cycle until 2013 or 2014.

In Ittihadieh's view, continued uncertainty in the world economy is undermining market recovery. But he also called for aircraft buyers and sellers to be far more realistic in closing the wide gap between asking prices and bid prices. He further proposed that manufacturers should cut production of small- to midsize jets, arguing that these are still not selling well and that the available stock of white-tails remains priced at around 20 percent below list prices.

Some older business aircraft simply need to be withdrawn from the market altogether to help correct the supply-demand imbalance, argued Ittihadieh. He recently recommended this course of action to a client trying to sell an older Bombardier Challenger 601 and another hoping to shed a Hawker 800.

Ittihadieh argued that widespread confusion about perceived asset values among aircraft buyers, sellers and financiers continues to be responsible for a sluggish recovery in trading. "The biggest problem I see is that brokers and dealers have a tendency to try to hype the market," he told delegates. "They don't like reality and spend too much time feeding false information to each other. They don't like transparency, and this has to change so that clients know what the real market is, because the toughest challenge is convincing a client that the price he is paying is the correct price."

During the boom period of around 2005 and 2006, it wasn't just buyers who had a distorted notion of values, according to Ittihadieh. "Even the conservative lenders got hit and some were lending as much as 120 percent of the [aircraft] value just to get some deals on their books," he stated. "This has led to a phobia among lenders. Banks will have to clear their bloody noses before they can start lending again and go out and get another bloody nose." That said, Ittihadieh wants banks to be more willing to lend funds against the value of the aircraft asset, rather than just the credit-worthiness of the borrower, and to be willing to take more risk.

In conclusion, Ittihadieh predicted that there won't be any real improvement in the business aviation sector until there is a "genuine recovery" in the world economy. "We're not even close to that yet," he said. "The banks still haven't revealed all their debts. Yes, there is rising capital but this is having to be used to write down assets. The entrepreneurs are still really struggling and we are also seeing a struggle in countries that weren't even hit by the financial crisis."

Ascend Sees an End to the Fall

The past two or three years have seen greater volatility in the market for pre-owned business aircraft than at any other point in the past three decades, according to Eddy Pieniasek, global head of consultancy with aircraft valuation specialist Ascend. But he now sees an end to the tumbling prices that have been so disruptive to the industry recovery, with even the values of smaller jets showing greater stability in recent months. "Prices appear to have bottomed out," he told the conference. "But it is still the case that the larger and younger aircraft have the best prospects for improvement [in value]."

"The [Bombardier] Global Express market has picked up and there is generally more stability in the mid-range aircraft," explained Pieniasek. "The [Cessna] Citation Excels and XLSs have seen a bit more stability of late."

Driving the recovery, in Ascend's view, is rising demand from the emerging "Bric" markets—Brazil, Russia, India and China. The firm estimates that in less than eight years since 2003, the U.S. has gone from accounting for as much as 75 percent of the world market for business aircraft to just 45 percent.

Brazil, said Pieniasek, is seeing especially fast growth and strong demand for smaller aircraft than models generally favored in other emerging markets. Of 57 aircraft delivered last year in Latin America's leading economy, 35 were very light or light jets—Embraer Phenoms and Cessna Citation Mustangs, CJ2s and CJ3s.

Market growth in India has been "up and down," according to Pieniasek, with about 30 aircraft sold there each year. More impressive is China, where he said demand has "really kicked off recently" to the extent that he soon expects the country to be adding about 60 aircraft per year to its still modest business aviation fleet (see box below). Like the Russian and Middle East markets, China's new business aviators favor larger, longer-haul aircraft, while the fleet profile in India is far more mixed. Ascend's 10-year projection is that between now and the end of 2020 the Chinese business jet fleet will grow seven-fold, to around 700

Strong local presence – comprehensive global MRO network
 See our locations and AOG hotline numbers

JET AVIATION
 AERONAUTICAL SERVICES & SUPPORT

JUST FLY. WE LOOK AFTER THE DETAILS.

ExecuJet
 AVIATION GROUP

Aircraft Interiors Expo Stand 6D62

EMTEO DAYLIGHT
 262.679.6170

Bristow

CONFIDENCE IN FLIGHT. WORLDWIDE.

[bristowgroup.com](#)

Up to the minute Weather

JEPPESSEN

[SUBSCRIBE NOW...](#)

[SPECIAL REPORTS](#)

[BIZAV WEB DIRECTORY](#)
 Visit our directory of manufacturers, suppliers and service providers

[ISSUE ARCHIVES](#)
 Search through years of AIN past issues

COMPLIANCE COUNTDOWN
 6 MONTHS
 12 MONTHS
CLICK HERE

[Sponsored by: Duncan Aviation](#)

[CALENDAR OF EVENTS](#)
 Search through the latest events and conferences

Market Update

30-Mar-11	Close
B/E Aerospace	35.02
Boeing	73.81
Bombardier B'	6.42
Embraer-Emp.	33.36
General Dyn.	75.99
General Electric	20.17
Goodrich Corp	84.66
Honeywell Intl	59.59
L-3 Comm.	78.75
Lockheed Martin	80.35

Northrop Grum.	68.76
Rockwell Collins	63.50
Textron Inc	26.99
United Tech.	84.40

delayed 30+ minutes, source: DTN © theFinancials.com

REPRINTS

- RSS FEED 
- HEADLINES 
- BIZAV 
- AIR TRANS 
- DEFENSE 
- ACCIDENTS 
- AIRPORTS 
- AVIONICS 
- CABINS 
- CHARTER 
- FINANCE 
- GA 
- MAINTENANCE 
- PEOPLE 
- REGULATIONS 
- HELICOPTERS 



aircraft. (In February the Firestone Management Group, which advises companies how to break into the emerging Asia-Pacific market, reported that there were 116 business aircraft registered in China.)

"Collectively, Bric isn't the answer [to the business aviation industry downturn] but it is certainly part of it," Pieniasek concluded. He also predicted that growth will be driven further by new demand in countries such as Indonesia, Nigeria, Vietnam, Egypt, South Africa and Turkey.

Worldwide, Ascend is projecting some 730 new business jet deliveries this year. These will have a collective value of some \$18.8 billion. (For comparison, the General Aviation Manufacturers Association reported there were 763 business jet deliveries in 2010.)

"To see a full recovery, we need the money men to get back in the market, and I think this will start to happen more from 2012," said Pieniasek. In his view, the lack of finance has partly been responsible for holding up sales of older pre-owned aircraft but this is also due to the market's poor opinion of the efficiency of operating these aircraft. He predicted that older aircraft will soon start disappearing from the market altogether and that this should correct the supply-demand imbalance.

Get Real on Prices

Not everyone finds current methods for tracking business aircraft values entirely convincing. Kirsten Bartok, vice president of global sales financing and structured finance with Hawker Beechcraft (HBC), pointed out that services such as Amstat and JetNet are able to provide only asking prices for determining the value of used aircraft. In her view, these can bear no relation to the prices at which the aircraft are actually sold and so can have a distorting effect on how the market is perceived. She said that this is also reflected in how Wall Street research generated by the likes of JP Morgan and Goldman Sachs reflects the state of the wider business aviation sector—bemoaning the lack of a public database of the prices at which aircraft actually trade.

Bartok argued that the market for business aircraft is fundamentally different from that for airliners. "It's more like the car market," she said, explaining that it is driven more by the market clearing price—whatever someone will actually pay for a given aircraft at a given time—and for this reason there is greater volatility in pricing.

In this respect, there are crucial variations among regional markets. "Typically, a buyer in Asia or the Middle East will pay more than one in the U.S., partly because buyers there are less knowledgeable and also because the manufacturer is usually having to pay a broker," stated Bartok.

The relative values of pre-owned aircraft in markets such as Russia and China are partly skewed by the fact that authorities there don't allow imports of aircraft older than 10 years. In the U.S., tax policies granting substantial breaks on deductions made over a five- to seven-year period also tend to shape buying patterns.

Bartok said that the growing significance of international customers could result in even more marked changes in pricing. By HBC's estimate, the U.S. now accounts for no more than 30 percent of the global market for business aircraft.

Another lingering influence on the business aircraft market is so-called "bubble pricing". Bartok gave the example of an unspecified super-midsize jet, which had had a new list price of \$18 million in 2006. On the secondary market for then-precious delivery slots, the same aircraft might have reached a value as high as \$25 million. But then came the crash in 2008, resulting in an apparently dramatic drop in its price, when, Bartok maintained, it had actually fallen only 4.5 percent from its original list price, to \$17.2 million from \$18 million.

In her view, the super-midsize sector has retained value well. She said the worst decline in values here has been a 7.1-percent drop from where they stood in 2008.

Even when the days of bubble pricing were gone, the business aviation community unintentionally found other ways to distort values of used equipment. "Some companies put their aircraft on the market at deliberately high prices so they would not sell but so that they could demonstrate to shareholders that they were trying to sell them," Bartok told the conference.

Despite these apparent aberrations, the HBC executive concluded that business aircraft remain a good investment. She explained that the large number of different types available makes for greater liquidity than is found in the airliner sector. "It is a liquid market instead of the lumpy duopoly in the commercial sector [where Airbus and Boeing are dominant]," she said.

The first International Corporate Jet & Helicopter Finance Conference was organized by *Corporate Jet Investor* magazine. The sell-out event attracted 180 delegates. o

[Back](#)

Share This Article With Others

Related Articles



GET A PLAN ALREADY.

GET AVPLAN Trip Support Flight Planning ANYWHERE



IPAD ARM MOUNT

ELEGANT DESIGN

EASY UPGRADE



More than 70 AUTHORISED SERVICE CENTRES around the world

