

Secondhand market: Ghost jets swell perception of glut in used aircraft for sale [Print](#)

By Hal Weitzman

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At first appearance, the second-hand business-jet sector looks like a buyer's market.

First, nearly one in five of the world's active business jets is currently for sale, according to Brian Foley Associates, the independent business aviation analysts based in New Jersey, while a recent report by JP Morgan put the used jet inventory at 14.5 per cent in March. What analysts agree on is that there are currently about 60 per cent more used business aircraft on sale than there were at this time last year.

Second, average asking prices for all used jets have fallen by about 30 per cent from their recent peaks. "The market has come down very quickly, which has caught a lot of people by surprise," says Phillip Roberts, an aviation specialist at Lloyds TSB Corporate Markets in London. "What we're seeing is a huge level of aircraft-price deflation.

"At the height of the bubble, we saw aircraft values trading supremely strongly," Mr Roberts says. "If you'd ordered a large-cabin aircraft about three years ago you were paying somewhere between \$40m and \$45m for it. At the height, in the spot-trading market, people were prepared to pay up to \$60m to take early delivery of that aircraft. Prices have now come down to a more realistic level."

However, look behind the shiny equipment on sale to the sellers' motivations and at least some of the business jets up for sale are phantoms, says Mr Foley. The genuine vendors, he says, are those companies and individuals who see their assets going down in price at the same time as their own business prospects and feel they have no other choice.

"Just as we saw panic stock-selling back in October, there are many aircraft owners that had the same feeling," Mr Foley says. "They are desperation sales, where people just have to dump their aircraft."

In a significant number of cases, though, Mr Foley says the used business-jet market is being distorted by sellers who do not genuinely want to dispose of their aircraft. "Some owners with no real interest in selling list them for sale anyway, either in hopes of getting an offer too good to be true or as a contingency in case things get worse," he says. "Still others keep the plane for sale for political reasons.

"Either way they're doing themselves and the real sellers a disservice by keeping supply artificially high, which results in further depressed prices."

That is having a disastrous knock-on effect on the new business-jet market. "In general, for the upper end of the market, about two-thirds of everyone who buys a bizjet already owns one and is trading up," explains Cai von Rumohr, senior research analyst at Cowen and Company in Boston. "It's sort of like cars or houses – there's a strong price relationship between the two."

"Some of the more recent used bizjets for sale are similar to ones coming off the line," says Mr von Rumohr. "If someone is getting a new plane for \$40m and one that was off the line three months ago is now selling for \$38m, it may be more attractive to get something comparable to what they wanted at a price less than they thought they were going to have to pay for a new aircraft."

New business jets are also competing with the delivery-position market, in which some customers

who placed orders years ago are facing imminent delivery and no longer want their aircraft. Such customers determine that selling the aircraft off the line for a discount is preferable to the penalty they would have to pay to cancel their order.

The new jet market also faces pressure from increasing numbers of “whitetails” – aircraft that do not have a customer, so called because they have not yet been painted with a tail number or design. For example, **Bombardier** had 19 whitetails at the end of 2008, up from none a year earlier.

Manufacturers are fighting back. Cessna, for example, recently announced it would offer a money-back guarantee on certain used Citation models, promising to buy back the jets in two years' time at the same price for which they were sold.

Meanwhile, buyers for both new and used business jets are finding financing tougher than it was. “Financing for secondhand aircraft is still very much there,” insists Mr Roberts, “but there’s more cautiousness among lending groups generally, because of the downturn.”

Given political and balance-sheet pressures, Mr Roberts says, the initial recovery in the market is likely to be driven by high net-worth individuals rather than corporations, which will probably dip their toes back in more gingerly.

Mr Foley expects that the secondhand market will bounce back more quickly than the new business jet market and says the turn could begin as soon as July. “We’ll see people cherry-picking the very desirable newer equipment with low hours, making crazy offers and hoping they’re accepted.”

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