COLIBRI AIRCRAFT: BUSINESS JET ANOMALIES AND WHEN THE PRE-OWNED MARKET GOES CRAZY

News / Business aviation

The pre-owned jet market is a complex entity that cannot al-ways be predicted. Certain events happen that are unforeseen and unprecedented. These events have nothing to do with the aircraft itself but can affect its value.

For example, in late 2014 the market for the Challenger 604 was stable with approximately 22-25 units on the open pre-owned market. This number represents less than 10% of all the Challenger 604s ever delivered worldwide, and owners felt comfortable that their asset would retain its value. By the spring of 2015 the situation had changed, and the Challenger 604 market became very crowded with a large number of aircraft becoming available for sale. Within the timeframe of 4-6 months, the number of Challenger 604s offered for sale worldwide had doubled. This was extremely worrying for aircraft owners as the supply of aircraft was now far greater than demand.

The Gulfstream G550 is another example of this anomaly occurring. In January 2014, there were 10 G550s on the market. One year later in January 2015, there were 33 for sale. There has continued to be around 30-35 aircraft on the market since that time. This was a significant supply

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increase, and since this initial rapid supply rise the market has witnessed a series of price declines. These price declines continue to the present day, due largely to the persistent high levels of supply.

In an analysis of the affect these seemingly irregular events have on the preowned jet market, Colibri Aircraft believes the following factors affect aircraft values outside of the asset condition itself.

Over supply leads to lower asking prices

In situations like the above where the supply of aircraft greatly outweighs demand, price decreases will follow. Nothing about the physical aircraft has changed, but the supply will push pricing to lower levels. While we do not always know why these sudden surges in supply happen, we can say that they negatively affect pricing.

New equipment produced by OEMS

As the OEMs produce new models, their first target for prospects are the owners of the previous models. For example, future G650 buyers are often current G550 owners. This means that as the new model is produced and deliveries begin, a sudden spike in supply of the previous model occurs as owners sell in order to upgrade. This leads to pricing weakness in the older model's market.

Separately, if the OEM starts to discount pricing on their newest model, it will result in a sudden decrease in values for the previous models of aircraft. To summarize this briefly, most buyers want the newest and latest model and will only look at older models when it saves them money. When the newest model gets significantly cheaper, the older ones have to adjust to still offer a financial incentive. In markets such as the last few years where OEM discounting has been common, it has had a notable effect on the prices of the pre-owned market.

While the specifications and condition of your aircraft affect its overall market value, these are not the only factors that determine your pricing. In a world as interconnected as today, things that affect the final values of your aircraft can be seemingly unconnected to your actual aircraft. For example, an OEM's poor financial situation leading to heavy discount-ing of new models seems far removed from the value of your 10 year old aircraft, but it does make a difference. As such, we advise clients to look at the broad overall market in addition to the specifics of their aircraft. Being able to respond quickly to overall market conditions will help you keep up to date and ultimately lead to a faster sale.

For anyone with an interest in buying or selling aircraft, this analysis clearly illustrates how market anomalies have an impact on the value of pre-owned aircraft
The analysis was performed by Marian Jancarik of Colibri Aircraft based in Bratislava, Slovakia. Marian's expertise is in working on behalf of clients for the purchase and sale of private aircraft. Marian locates and advises on optimal buying or selling situations tailored to meet the needs of aircraft owners and buyers. In addition to individual clients and companies, Marian also works very closely with financial institutions to give current market values on their assets and advise them on avoiding potential problems with the aircraft in their portfolio
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