

Private Bank



Aircraft Market Update

Newsletter
Winter 2019

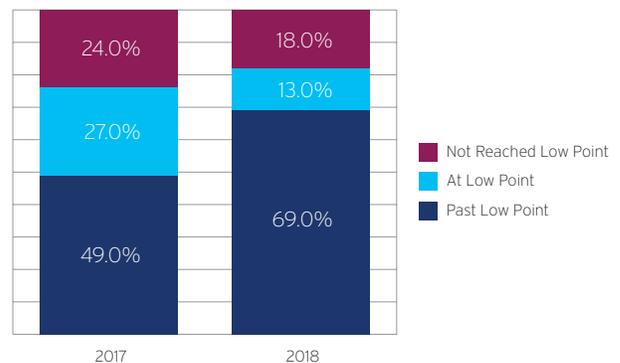


Over several years we have held the view that meaningful recovery in the business aviation industry was just over the horizon, and that each following year would be the year it would bounce back.

Although these predictions have so far failed to realize, this time there have been some truly convincing signs that 2018 is in fact 'the year.' After engaging with manufacturers, brokers, dealers, maintenance firms and other financial institutions over the past several months, the feeling of optimism and 'turning the corner' was more noticeable than in the recent past. To further substantiate this, please note below the *JetNet IQ Worldwide Survey* results comparing 2018 market sentiment with 2017.

It is said that numbers don't lie, and we are seeing strong numbers in many important areas of the industry that point to a return to normalcy.

Aircraft Market Sentiment



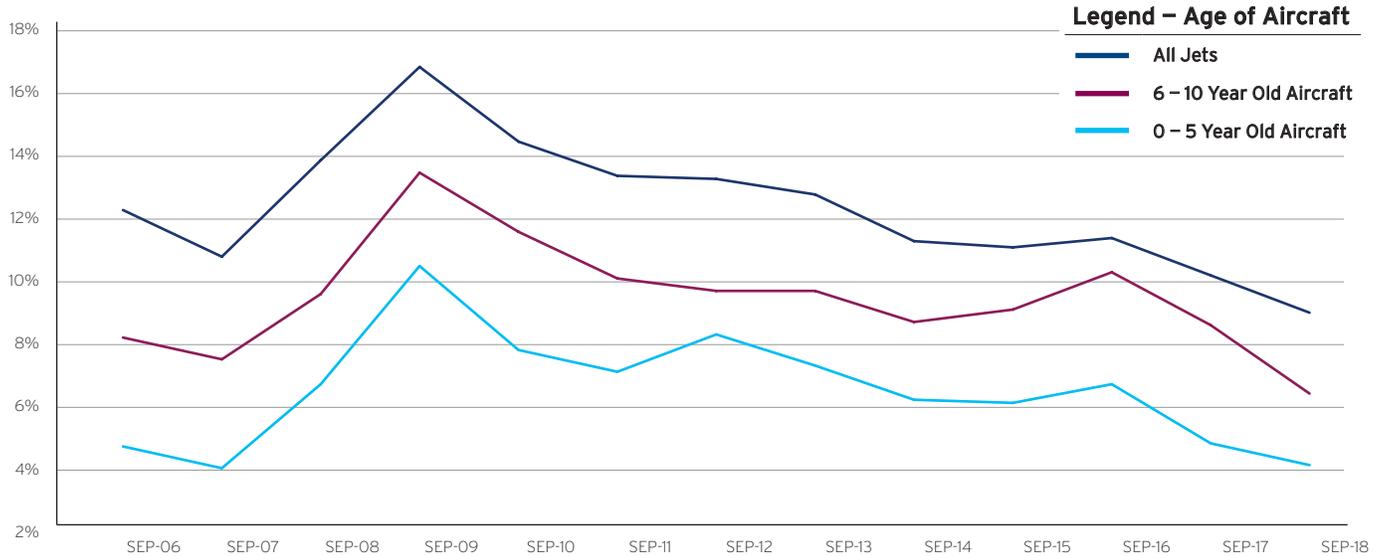
Source: *JetNet IQ Worldwide Survey*, 2018.

Business aviation market update

One of the traditional and most reliable signs of the industry's health is the number of pre-owned aircraft up for sale. In tough economic times, an aircraft – whether corporate or individual – is often one of the first assets to be sold, as illustrated by the chart below for 2008 and 2009. Since then, the for-sale numbers have fallen – slowly and with some hiccups.

But now the tables have turned: the entire pre-owned market is at a 9% level of availability (10% being the traditional 'healthy market' level) and newer aircraft are at 4%, a low level not seen in 11 years. These numbers bode well for finally seeing stability – and maybe even increases – in pre-owned values.

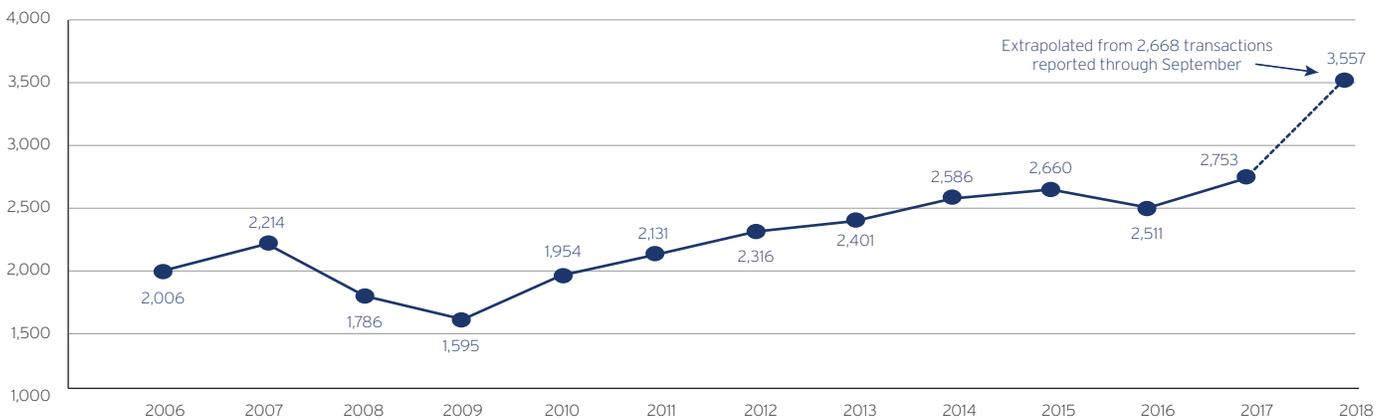
Percentage of Pre-Owned Jets for Sale



Source: Barclays Used Business Jet Monitor, October 2018.

As a corollary to the declining percentage of jets for sale, the number of pre-owned retail transactions has climbed steadily with 2018 looking like a year of unprecedented activity. The most recent *JetNet iQ Market Report* confirmed 2,668 transactions from January to September – nearly equal to the total for all of 2017. Continuing at the same pace would result in around 3,500 transactions for the whole of 2018, an astoundingly high number.

Pre-Owned Retail Transactions



Source: Barclays Used Business Jet Monitor, October 2018.

There are other positive indicators for the market. In its survey, *JetNet iQ* defines 'net optimism score' as the percentage of respondents who believe the industry is past its low point minus the percentage of those who believe the low point has not yet been reached. That percentage difference was just over 50% this year, compared to 23.6% in Q3 2017 and just 6.6% in Q3 2016. Additionally, the October *Barclay's Business Jet Survey Index*, where 50 is considered the minimum level for a healthy market, came in at 71, an incredible jump from the 29 of Spring 2016.

Other than another economic crisis or a serious military conflict, the only potential stumbling block to continued growth remains the aggressive discounting of new aircraft and its harmful effect on the pre-owned market. The 'Big 3' manufacturers, particularly Bombardier and Gulfstream, have, over the last few years, taken to heavily discounting virtually their entire product line, often by as much as 25% – 30% below the 'sticker' price. Even traditionally conservative Dassault has discounted its line of Falcon jets to an unprecedented degree.

This price slashing is understandable because of the overproduction of aircraft for global economies that have cooled, leading to many order cancellations, and a steady stream of new models (larger cabins, longer range and more sophisticated features) which invariably have an adverse effect on the value of the models they have been designed to replace. The following table clearly demonstrates this phenomenon.

Effect of 'Big 3' discounting new aircraft on recent pre-owned

A	B	C	D
Manufacturer	Model	Q2, 2018 > Q3, 2018 Value Change Year of Introduction through 2016	2017
Bombardier	Challenger 350	2014 – 2016: (\$444,000)	(\$900,000)
	Challenger 650	2015: (\$888,000) 2016: (\$1,775,000)	(\$1,775,000)
	Global 5000	2005 – 2016: No Change	(\$1,775,000)
	Global 6000	2012 – 2015: No Change 2016: (\$888,000)	(\$2,662,000)
Gulfstream	G550	2003 – 2012: No Change 2013 – 2016: (\$888,000)	(\$3,550,000)
	G650	2012 – 2016: No Change	(\$1,775,000)
	G650ER	2012 – 2016: No Change	(\$1,775,000)
Dassault	Falcon 2000LXS	2013: \$888,000 2014 – 2016: No Change	(\$1,775,000)
	Falcon 900LX	2010 – 2014: No Change 2015: (\$888,000) 2016: (\$2,662,000)	(\$2,662,000)
	Falcon 7X	2007 – 2016: No Change	(\$3,550,000)

Source: *Aircraft Bluebook*, Q3, 2018.

For the high-end models selected, column D shows the drop in Bluebook average retail value for a 2017 model (now one year old) from Q2 2018 to Q3 2018. However, note in column C that in most cases the drop in values for model years prior to 2017 is either significantly smaller or non-existent. This trend can only be attributable to heavy discounting of 2018 models. The bottom line being that if one bought a new model in 2017, its value has already dropped quite a bit. On a positive note, the aforementioned new models now or very soon coming to market simply cannot be discounted to this degree due to the immense research and development costs associated with these programs. If that occurs, we should see stabilization in the pre-owned market for 'almost-new' aircraft in the near future.

2018 National Business Aviation Association (NBAA) Convention

This year's NBAA convention was held in Orlando, US on October 16 – 18. The excitement and enthusiasm were palpable: virtually everyone was saying – and truly believing – the dark days were over and that good times were now here. The business aviation industry is now in full recovery mode. There were no major announcements from the manufacturers, but there are enough new models either just hitting the market or nearing certification to keep the interest level high.

Convention updates from the manufacturers:

Dassault Falcon

After last year's cancellation of the Falcon 5X program due to delays incurred by engine supplier Safran, Dassault's new 5,500nm Falcon 6X has now entered the 'detail design' phase with all partner contracts signed and new Pratt & Whitney Canada PW812D engines. First flight is slated for 2021; certification and first deliveries in 2022. State-of-the-Art Falcon Eye vision system is now certified for installation on the Falcon 8X.



Falcon 8X

Gulfstream

The 5,200nm G500 received FAA certification in August and first deliveries have begun. The G600 continues testing with Gulfstream announcing range increases of 300nm to 6,500nm at Mach 0.85, and 400nm to 5,500nm at Mach 0.90. The G600 is on track for certification in 2019. Over 300 of the ultra-long range G650 and G650ER are now in service.



Gulfstream G500

Embraer

Embraer announced two 'new' models, the Praetor 500 and 600. These are derivatives of the Legacy 450 and 500, respectively. By utilizing previously untapped fuel tanks and a redesigned winglet, Embraer claims 300nm more range for the Praetor 500 and 700nm for the 600. Certification for both models is targeted for mid- to late-2019.



Praetor 500

Bombardier

The 7,700nm, 4-zone cabin Global 7500 received Canada Transport type certification on 28 September. First deliveries are expected by year end, pending European and US certification. The Global 5500 and 6500, basically upgrades to the Global 5000 and 6000 with new GE engines and redesigned wing, are in testing with certification slated for late 2019.

Textron (Cessna)

Fractional ownership giant NetJets announced a deal for 175 super-midsize Citation Longitudes and up to 150 large-cabin Hemispheres. Certification and first deliveries of the 3,500nm Longitude are expected in late 2019; the 4,500nm Hemisphere is relying on Safran to fix the Silvercrest engine development problems that led to Dassault cancelling their 5X program.

Outlook

After nearly a decade of sluggishness, there can be no question whether the business aviation industry is healthy once again. The decline in available pre-owned inventory, the increased number of retail transactions and the lower numbers of days on the market before sale are strong indicators. As inventory continues to shrink, the bargains of the past few years are becoming harder to find and pre-owned aircraft values will end their decade-long decline with transactions returning to sales at more reasonable prices. Add continued economic health and a return to traditional manufacture discounting levels, and business aviation will likely boom once again.

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