



# FLY-BY



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3 MINUTES IN THE PRIVATE JET MARKET



Pre-Owned v New Transactions  
Understanding Today's Supply Shortage  
Feeling Brexit's Effect  
A Deposit's Impact on a Transaction



# QUICK STATS



## 90%

of Citation XLS+ sales since January 2020 had the dual-place forward divan as opposed to the single-place divan.



## 1800<sup>TH</sup>

Pilatus PC-12 delivered at the end of April 2021.



## 224.7%

Increase in private jet flights in Europe in April 2021 from April 2020, but still down 18.5% from April 2019.



## 75%

Reduction in Citation CJ3s on the market in the last 12 months.



## 13

Private jet models in production or development that cost 40 million USD or more.

## \$2,100,000,000

Implied market capitalization of Wheels Up following its SPAC merger on the New York Stock Exchange.



# NEW DYNAMICS MEAN NEW CHALLENGES

The very low inventory levels that came on the heels of the transaction boom of 2020 have now turned into record low inventory levels. Buying aircraft is extremely difficult right now, particularly for European compliant aircraft. Interestingly, prices have stabilized but, with only very few exceptions, not yet started to rise. The key conclusion from this is that reduced inventory means significant buyer competition for aircraft that are for sale.

To highlight this increased competition, we recently tried to purchase a late model Challenger 650 for a client. The OEM notified us that an option was coming available at approximately 7 pm Friday evening. We formally submitted an offer on the following Monday at 1 pm. Unfortunately for our client, we were the sixth offer received, and the aircraft ended up trading close to its headline asking price. To say that the markets can be competitive is quite an understatement.

Adding to low inventory levels, the economic effects of the pandemic and governments' response are still revealing themselves in unexpected ways, and the prolonged and continued border and travel restrictions are creating numerous logistical headaches with regards to transactions. Workarounds can be found with a liberal application of money, effort and experience to accomplish the goals of our clients and still adhere to the travel restrictions in place, but it is cumbersome and time consuming. Being nimble and solv-

ing the unexpected and unforeseen is now a must-have tool in the arsenal to complete a transaction. Covid-19's effects on the industry continue to surprise us all and will continue to do so for some time to come.

From a 'glass half empty' perspective, the combination of private jet inventory at record lows, stock prices at all-time highs and house prices, especially in the USA, rising at double digit percentages annually, is worrying. The expression that history rarely repeats itself but often rhymes is an apt one, and there are many rhymes from the previous boom days of 2007. That being said, barring some major external shock, we do not see an end to the current conditions, and we believe the current trends will continue further for the next months and possibly year, especially as much of Europe starts to travel again and buyer demand picks up.

Safe Travels.

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# THE SHARP CONTRAST BETWEEN PRE-OWNED AND NEW JET TRANSACTIONS

2020 new jet deliveries were down 20% from 2019 (the lowest number since 2004), while pre-owned transactions were up 7.7%.

One of the biggest reasons for the popularity of the pre-owned market compared to new aircraft is the price difference. Depreciation has been a constant feature of aircraft since the financial crisis in 2008, and a pre-owned aircraft typically offers significant savings on the purchase price.

*When you consider that many of the pre-owned models provide similar functionality to the new models currently in production (ie: pre-owned Citation XLS compared to a new Citation XLS+ or a pre-owned Global XRS compared to a new Global 6500), the value proposition of pre-owned jets becomes significantly greater than a new aircraft.*

This proposition of similar utility for a lower purchase price has driven the pre-owned market's popularity. To illustrate this point, of the top 20 best-selling jet types in 2020, 14 of these models were trading for under 2.5 million USD. Given that the lowest price for a new private jet (a single engine, light jet) is around 3 million USD, it suggests that many buyers are taking advantage of the value of pre-owned aircraft.

Another difference is the purchase cycle. New aircraft manufacturers will normally have pre-sold several months of their annual production quotas and as a result buying a new aircraft usually entails waiting several months for it to be built and delivered. Pre-owned aircraft have a shorter purchase cycle taking several weeks once the right aircraft has been identified. For clients whom timing of entry into service is critical, pre-owned jets normally offer a faster path to do so. This was especially true during 2020 where many new buyers wanted to have an aircraft to avoid airports and needed a faster entry into service than a traditional new purchase would provide.

Finally, it cannot be overlooked that the difference in size of the inventory available between pre-owned and new jets is substantial. Inventory of new aircraft available each year is determined by OEMs who, in general, try to keep a certain inventory level to maintain stability. As a result, new buyers have only around 700 aircraft per year to choose from. The contrast from the pre-owned market, which currently comprises over 20,000 jet aircraft and growing, is significant. The sheer size of the pre-owned jet fleet leads to a larger number of transactions each year as owners buy, upgrade or leave ownership.

## NEW JET DELIVERIES v PRE-OWNED TRANSACTIONS





# THE CONSEQUENCES OF 2020's TRANSACTION SPREE

Pre-owned private jet inventory decreased 31% since June 2020. This decline of supply on the market has had a residual and meaningful impact on the marketplace this year.

Supply of pre-owned private jets for sale is the lowest percentage it has ever been. Only 5.22% of the pre-owned jet fleet is for sale worldwide as of April 2021 (see next page). Despite the low market supply, prices have remained relatively flat. In the very few markets where increases have occurred, the increases have been modest at best.

## SELLERS

So far prices are not increasing, and you cannot expect a sale price that is above market values. However, we are consistently seeing that bid prices are much closer to the asking prices. Aircraft are trading at right at or just below asking price which gives a seller the ability to hold stronger to their asking price range.

Also, we recommend a seller look closely at the terms of the transaction. We advise pushing against soft deposit transactions. These can consume a vast amount of time and often end with the buyer walking away from the transaction without consequence. When multiple buyers are anxious to purchase your aircraft, focus more on the terms to choose a deal that feels more secure. If a seller can get a buyer to commit with hard money, your chance of success will increase substantially.

With COVID-19 border restrictions still in place in most of the world, most transactions are hyper-local. USA buyers are considering European aircraft less than ever as the ability to physically view the asset is almost nil. The same can be said across almost all geographical regions. A seller needs to be aware if there is a local market for your aircraft and start your focus there. Your broker should be on top of this, but it is beneficial for a seller to know what the environment is for sales.

## BUYERS

Buyers have much less leverage and fewer options in today's marketplace. There is more competition for fewer aircraft. When and if you find the aircraft you are searching for, submitting an offer as quick as you are able will be in your benefit. Speed matters in today's world where sellers have multiple buyers approaching them.

The supply pool narrows even further for buyers who have specific requirements, such as a certain interior layout or maximum aircraft hours. A buyer will have to compromise on some "wish list" items where they did not have to in previous times simply due to the lack of options. You either compromise on the aircraft's attributes because your choices are limited, or you compromise on the time to purchase until your ideal aircraft comes to market, a period which could take months or more.

### European Buyers

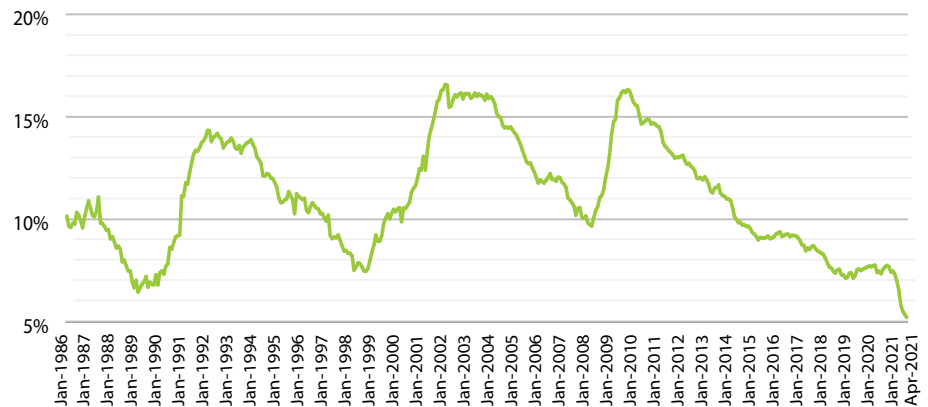
Supply is limited further for European buyers who have extra regulations regarding avionics and modification approvals. The European market is 1/10 the size of the USA market and in some specific models it is even smaller. Aircraft that are EASA compliant, or can easily be made so, are few when looked at in context of the global fleet. European buyers need to understand that timing for finding an aircraft is much longer right now and you may have to pay more than you anticipated to find a suitable aircraft. The aircraft search is months, not days or weeks, for European buyers. As soon as an appropriate aircraft becomes available, you need to be prepared to act as fast as possible to secure it.



# CURRENT STATE OF THE PRIVATE JET MARKET

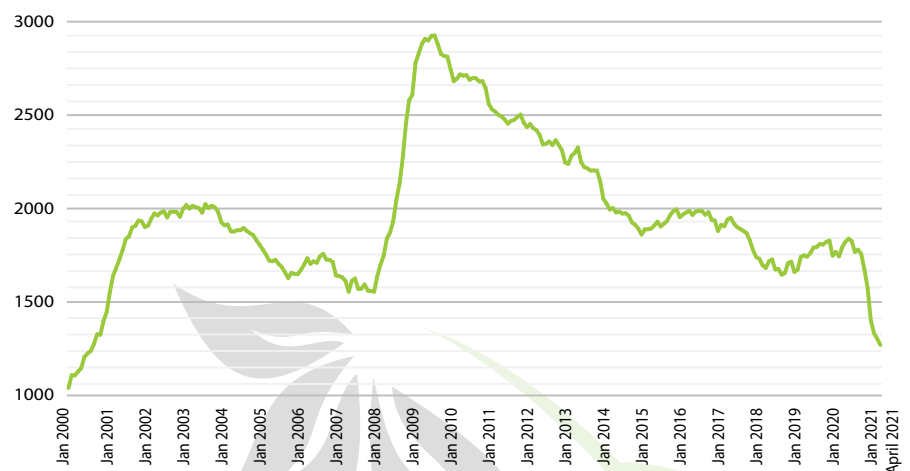
## PERCENTAGE OF PRIVATE JET FLEET FOR SALE: DEC 1985-APRIL 2021

The recent sell off has taken inventory levels (when seen as a percentage of the fleet) to the lowest point on record.



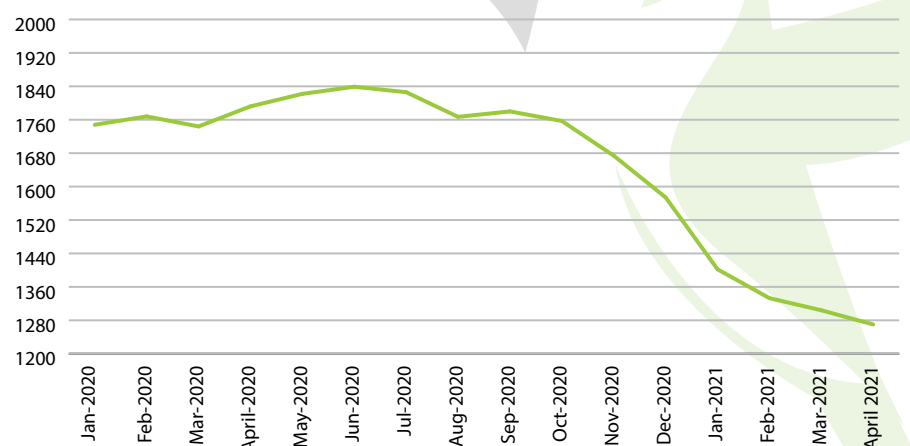
## TOTAL NUMBER OF PRIVATE JETS FOR SALE: JANUARY 2000 -APRIL 2021

There have not been this few jets for sale since Oct 2000. Keep in mind, the OEM's have produced 15,700+ jets in this time.



## TOTAL NUMBER OF PRIVATE JETS FOR SALE: JANUARY 2020-APRIL 2021

A close up look at supply levels in the last 16 months shows the sharp decline in the number of jets for sale since October 2020.





# BREXIT'S EFFECT ON AVIATION

## NEW PROBLEMS NEED NEW SOLUTIONS

Now that Brexit has officially occurred, the ramifications regarding private aviation are becoming evident.

*The most obvious effect has been on aircraft usage for charter operators.* With Brexit, the UK has left the European Union Aviation Safety Agency (EASA), and as a result it has become more difficult to operate an aircraft for charter on the UK registry inside Europe. A UK registered aircraft can fly a charter flight into Europe and back to the UK, but it cannot fly from one European country to another European country on a charter flight without a series of applications being made for travel approvals to each country it visits. This has affected the ability of UK jets to be chartered within Europe. If you are an owner who relies on charter to offset some of your expenses, you will be feeling this consequence.

*Secondly, Brexit is impacting the transaction process.* EASA requires an export Certificate of Airworthiness for any aircraft being imported into EASA from outside an EASA member state. As the UK is no longer a member of EASA, this rule applies to UK aircraft planning on

registering onto an EASA register. The CAA in the UK is currently completely overloaded due to the high volume of need coming from not only private aviation but commercial airlines as well. This process of obtaining an Export Certificate of Airworthiness is now taking two to three months. If you are importing an aircraft into the UK from Europe, you also need an Export Certificate of Airworthiness from the aircraft's country, as well as a UK surveyor must physically inspect the aircraft to conduct an airworthiness survey before they issue a UK Certificate of Airworthiness. Unfortunately, there are no 'work arounds' to these requirements, and both buyer and seller need to understand that time requirements have increased.

Hopefully as time progresses, the time frame for obtaining an Export Certificate of Airworthiness will decrease and intra-continent travel will become less paperwork intense for UK operators. In the meantime, it is the current state we are living in, and it is affecting many UK jet owners.

# THE HARD & SOFT DEPOSIT

Understanding the Differences and Which is Right For Your Transaction



The refundability of the deposit is always a negotiating point in a transaction. These negotiations will determine the circumstances under which the deposit should be refunded to the buyer and when it should remain in escrow with the Seller having some right to access it in the event of buyer's default. The most common negotiating point is around the timing that the deposit becomes no longer refundable at the buyer's discretion. The common language for this difference is a 'hard' or 'soft' deposit.

A *'hard' deposit* is when the buyer's deposit is made non-refundable after the Purchase Agreement is signed and before the Pre-Purchase Inspection (PPI). Such non-refundability is conditional upon the seller meeting all its obligations of the Purchase Agreement, crucially including the Seller making sure that the aircraft is delivered in the agreed delivery condition and actually selling the aircraft to the buyer. It is important to note that a buyer's deposit is rarely completely non-refundable. It is always contingent on the seller meeting all their requirements in the Purchase Agreement. The key difference is that the deposit is no longer able to be refunded at the buyer's discretion.

A *'soft' deposit* means the buyer's deposit is refundable until after the discrepancies found in the Pre-Purchase Inspection have been reported. Importantly, it is normally the buyer's sole discretion in a 'soft' deposit transaction as to whether or not they want to proceed once they see the list of discrepancies. In these scenarios, the buyer has absolute discretion to reject the aircraft and have the deposit refunded in full whenever they like up to the time of their deciding to accept the aircraft by signing the 'technical acceptance'.

## HARD DEPOSIT

The buyer's intent to purchase the aircraft is clear. The seller can enter the PPI assured that the buyer faces a loss of their deposit if all conditions are met but they do not complete the transaction.

More balanced to both buyer and seller. The PPI is for the benefit of the buyer, and the seller can take comfort knowing the buyer has every intention of completing the transaction. Both parties enter the PPI with greater odds of a successful transaction.

## SOFT DEPOSIT

The seller does not know if the buyer will actually purchase the aircraft until after the PPI and once the aircraft has been through a thorough inspection. Buyer can reject the aircraft for any reason and have the deposit refunded in full.

More risk to seller. A buyer can try to renegotiate price or easily walk away from the transaction after the discrepancy list has been provided. The seller still must repair all defects to aircraft found during that pre-purchase inspection, find a new buyer and perform another PPI.



# FOR SALE



## **2008 Cessna Citation XLS+**

Serial Number 560 6003

Engines on Power Advantage Plus

New Interior in 2017

ADS- B Out installed

Asking Price: \$5,250,000



## **2007 Beechcraft Premier 1A**

Serial Number RB-0195

Engines on TAP Advantage Elite

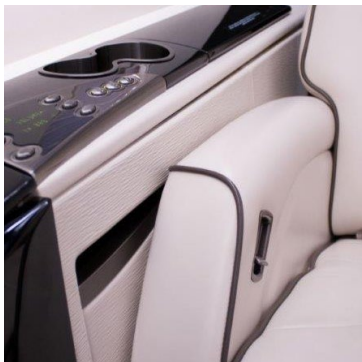
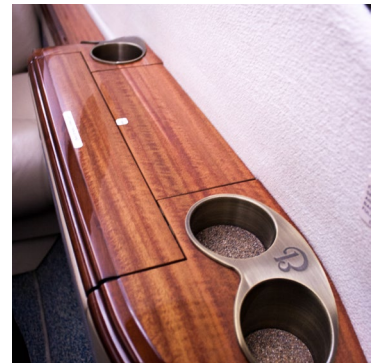
Seating for 6 Passengers

ADS- B Out installed

Asking Price: \$1,395,000

# WANTED





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