



**Pre-Owned Business
Jet Marketplace
Insight 2023**

**2022 In Review
What To Expect In 2023**

2022 in Review & What to Expect in 2023

ALTEA's perspective on the business aviation market

Pre-Owned Business Aircraft

AUTHORS: Jean Sémiramoth. Partner – ALTEA jean.semiramoth@altea-aero.com
Andrew Butler. Partner – ALTEA andrew.butler@altea-aero.com

> Global inventory of business jets for sale on the rise since 2021

Let's consider first where we've come from. Immediately after the very first lockdowns, the COVID-19 pandemic acted as a dynamic catalyst for the entire business aviation sector. Demand and pre-owned business jet transactions were at an all time high in 2021, resulting in only 700+ pre-owned business jets listed for sale at the end of Q1 2022, a record low in more than 20 years.

Since then, the global inventory of business jets for sale has been on a constant upward trajectory with 1,175+ units available at the end of last month. This is an indicator of a market shift in 2022.

At the time of writing, preliminary data suggested that there were roughly 15% to 20% fewer pre-owned business jet transactions in 2022 than in 2021. Is this a result of low inventory levels? Or rather a result of less demand – and therefore another indicator that the market started to shift in the second half of last year? Probably both, from our perspective.

> Supply and demand for business jets

Now, there's a question mark as to what will happen with demand. There's a consensus in the industry that demand will continue to slow down due to a number of underlying factors, namely (i) volatile stock markets, rising interest rates, energy price hikes, rising commodity prices, troubling inflation and subsequently (ii) the shadow of an impending economic downturn combined with continued inflation or even stagflation, (iii) continuing trade tensions, geopolitical unrest, (iv) the end of the 100% bonus tax depreciation in the US, as well as (v) the rise of environmental concerns and flight shaming.

On the supply side, we need to factor in the business jet manufacturer backlogs. With the pandemic, business jet manufacturers saw their book-to-bill ratio grow to 2:1 or even more in some cases, enabling them to sell near or at list price. Whilst rising order backlogs have led to production increases at most business jet manufacturers, supply chain issues and labour shortages have kept them rather modest and will continue to impede a significant production ramp up in the near future. As a result, new buyers must wait 18 to 24 months to take delivery of a new aircraft; an incentive to look for alternatives on the pre-owned market.

> Expectations for the pre-owned business jet market in these changing conditions

In these changing conditions, ALTEA expects the following:

- On the supply side, more pre-owned business jets will come to market.

- On the demand side, with the potential shadow of an impending economic downturn, some of the newcomers to business aviation may cut their travel expenses and return to airlines as they restore service to pre-COVID levels or even above.
- With inventories on an upward trajectory, buyers will benefit from a greater choice of comparable aircraft from which to choose. Overall, buyers will feel less pressure to close purchases quickly. We may even see buyers deciding to wait and see what happens – being concerned that they might otherwise “over-pay” – or simply wait for a downturn and the opportunity to buy for less than the current asking price.
- The average number of days on the market will rise and more sellers will lower their asking prices.
- Buyers may be more fastidious about the condition of the aircraft and matters such as damage history, records completeness and delivery conditions, which could incur more costs for sellers.

On this note, before listing aircraft for sale, sellers would be wise to engage an appraiser like ALTEA not only to get a realistic estimate of what their aircraft is worth in the prevailing market conditions; but also to be aware of issues and concerns prospective buyers are likely to point out and which could ultimately impede the prospect of a successful resale. Similarly, financiers would be wise to do likewise to mitigate their risk exposure or simply to monitor aircraft value trends in what may be a pivotal year.

> **Back to normal or a new normal?**

Are we seeing a shift to a soft market? Should we worry?

No, not yet. After all, whilst its undoubtedly narrowing, there remains a gap between supply and demand for now. So, rather than a disruption, we're seeing a mild shift whereby, to the benefit of buyers, market conditions favour sellers a little less without moving to a buyer's market – at least in the short term.

Is it “back to normal”? Not really. It's a “new normal”.

A shift away from a heavily demand-driven market is a blessing for most brokers given the rather extreme market conditions that existed post COVID. Quality pre-owned aircraft frequently did not come on to the open market – being ‘snapped up’ before many discerning buyers even knew they were for sale.

A ‘new normal’ is to be expected simply because the old normal had seen our industry plunged into the doldrums since the worldwide financial collapse of 2007/8. Inventory levels post the financial crisis reached nearly three times the inventory level of today. Whilst that was a short-lived experience, inventory levels still remained at nearly twice today's number right up until the pandemic of early 2020. Evidence shows that the business aircraft market had an oversupply of inventory for more than ten years.

The move to overheating was rapid post COVID. But overall, ALTEA expects a cooling which could see us move to a more balanced market towards the end of 2023 and beyond.

ALTEA has already seen a number of newly ordered aircraft become quietly available – some with deliveries due in Q3 and Q4 in 2023. This, we believe, is another sign that the market is cooling. One factor is certainly in the industry's favour – a difficult supply chain has resulted in the OEMs being unable to build aircraft as quickly as they might like. That is a real advantage and will also help us to avoid the doldrums of which we will be happy to see the back.