

Paying Premiums: Buying Jets in Today's Market



Current supply and demand in the Business Aviation market means aircraft buyers are paying premiums. But what constitutes a reasonable price expectation? Are aircraft values likely to come down soon? Matt Harris asked Central Business Jets' Jay Duckson...



Having been actively involved in the aircraft resale market for almost 40 years, Central Business Jets' Founder and President Jay Duckson is well qualified to comment on the high premiums today's buyers face because of high demand and low supply of inventory on the pre-owned business jet market.

Central Business Jets was established by Mr. Duckson in 1983, and today regularly surpasses \$200m in annual sales of aircraft from every major manufacturer.

Across his career, Duckson, who has a Degree in Economics and a minor in Aerospace Engineering, has overseen the transaction of over 1,000 aircraft around the world, through upswings and downturns in the market. "For nearly 40 years, I've represented a wide variety of clients, from Fortune 500 to Forbes 1000 companies, and high-net-worth entrepreneurs," he explains.

By representing them exclusively, Duckson says Central Business Jets has been given the grace of time to buy, and to stringently examine every on- and off-market aircraft. "This allows us to be selective and patient, without needing to rush the process just to make a commission.

"The data we gather gives us unique insights as to what is currently for sale, what may be for sale next month, and what may be for sale next year. This is how we determine the supply side of the equation," he outlines.

What's playing out in today's market, however, is uncharted territory, with inventory levels never being as low as they are now. As a result, aircraft values have risen, and sellers are clearly in the driving seat...

AvBuyer: *We've heard some troubling talk relating to sellers demanding buyers accept their aircraft "as-is", owing to the high demand and low supply on the market currently.*

Is any aircraft worth that kind of risk, or is the cost of corrective maintenance simply part of the premium that buyers should expect to pay for a business aircraft today?

JD: Rumor has it that perhaps 30% of transactions may fall into this category. Although, we would never allow our clients to buy an aircraft "as-is", we could feasibly allow a very limited one-, or two-day Pre-Buy Inspection at a seller's choice of facility, provided we can perform a few simple tasks.



At Central Business Jets, we have an exclusive arrangement with a few maintenance professionals, and together we add the cost of the airplane with the cost of making the plane 'perfect' for the buyer. Sharing that overall cost with our client, we're able to make an informed decision together on whether to buy or pass, based on what makes the best sense for the buyer.

So, there is no reason why buyers should need to feel unnecessary corrective maintenance is part of the premium they pay for the right jet in today's market. With the right support from their broker, buyers will only pay a premium on what makes the best sense for them.

AvBuyer: *Speaking of premiums, there has been some speculation that recent volatility in the stock market could lead to prices in the used jet market starting to drop. Where do you stand on this, and why?*

JD: In my opinion, this will absolutely not be the case! I have owned Central Business Jets since 1983. During that time, I've concluded that it's not the stock market, but the Global GDP and Client Wealth that has the

broader connection with future price trends.

Historically, the more money a person or corporation has, the more likely they are to either charter, lease, partner, or own an aircraft, where the need exists. So, although (as of early March) the Dow Jones Industrial Averages had dropped over 10%, from 37,000 to 32,000, this does not foretell a 10% drop in aircraft values.

While some people's wealth is tied to the stock market, one would assume they are diverse and only have a partial exposure to stock market fluctuations. Yearly swings should, therefore, not affect them.

Moreover, since 2011, Money Supply (M1) has increased from approximately \$2 trillion to \$18 trillion – a 900% increase. In today's world, it would be naïve to believe the increase in M1 and some sort of CPI variable doesn't have some influence too.

A broad-brush approach finds a strong Gross Domestic Product (GDP) helps companies to grow and strengthen, and strong companies own aircraft. The opposite happens when GDP weakens.

Coupled with more first-time buyers entering the marketplace, perhaps due to increased wealth, or security and/or Covid concerns, I would conclude the market – and specifically pricing – is driven by simple supply and demand.





We know currently there are just too many buyers chasing too few aircraft. Short of a global war, or a major natural disaster the current demand should continue throughout 2022. Prices will not drop anytime soon – and certainly not by 10%.

AvBuyer: *A few months back, some brokers believed the upswing in jet values was a correction after more than a decade of depreciation, rather than actual price appreciation. Is that still the case? Just how far do you expect values to fall once the market does begin to replenish with inventory?*

JD: We have always been perplexed that a 10-year-old business jet was worth approximately 50% less than when it was new. That is a staggering amount when you consider the plane may have cost upwards of \$50m, originally. At the depth of price despair in mid-2020, values of a 10-year-old jet depreciated a staggering 70% of its cost when new.

Prices were never like this when I began in this industry. But then, in 1979 there were approximately 4,000 business jets, compared to more than 23,000 today.

We do expect that at some point in 2023 we may see a return to more balanced supply and demand, and, assuming a normal economy, it would be fair to assume a ‘more normal’ 3-5% annual price decrease on private jets.

AvBuyer: *Finally, what advice would you offer buyers in today’s market as they try to establish what is reasonable to pay, and what are simply expensive risks to be avoided...?*

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JD: It is well known one of the cheapest parts of aircraft ownership is the fee you pay a leading broker to help you find your next plane, whether it’s new or pre-owned.

The broker will help you navigate the selection process, obtain discounts, offer time-saving tips, weigh the risks against the rewards, and identify the added values, while helping you avoid paying for unnecessary extras and potential pitfalls.

Ultimately, the selection of a seasoned broker will be worth their weight in gold to the savvy buyer looking to navigate this marketplace.

More information from www.cbjets.com ■



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