The Year of Living Differently

David Crick
Managing Director
DavAir Group

Considering content for the last JETNET iQ PULSE release for 2020 is quite an onslaught of mixed thoughts and emotions.

If we cast our minds back 12 months, it would be reasonable to suggest that no one had the forecasting prowess to foresee the year we are just emerging from.

My recollection of the end of 2019 with respect to the world of business aviation and corporate jets was somewhat buoyant. It included anticipation of new sales growth, with future sales expected to break records, the release of new products and aircraft into the marketplace, development of sustainable fuels, avionics advances and generally a very upbeat vibe that reflected a continuation of the upward trends that had occurred throughout all of last year.

Then, after January and February propelled us into 2020, we needed to instead change focus to ensure we had enough toilet paper and trying to work out how to survive our sixth Zoom meeting of the day, making sure the Mute button was not on - and all while attempting a new bread recipe. All of our cherished industry events were cancelled, including the JETNET IQ Summit, NBAA-BACE, CJ, EBACE, NAFA, OEM events, and the list goes on... not the year we anticipated.

Many of our colleagues and friends in the industry have had to reinvent themselves and change their mindsets to one of survival mode. Beginning in March, sales were scarce for a few months as we learned to deal with the new global realities. The logistics of inspections, ferry flights and sale completions became very complex, particularly for those across multiple jurisdictions.

There have also been quite a few positive surprises. The dynamics of a global pandemic seem very different to other recent global events. With commercial aviation hibernating and international borders closing for extended times, business aviation acted differently. In 2008/9 during the Global Financial Crisis, we saw business aviation impacted, however large cabin business aircraft were quite quick to transact whereas mid- and small-cabin business jets took some time to show signs of recovery. Today, where commercial flights have been limited both in number and appeal, and with borders closed, larger intercontinental corporate jets seem to have taken the brunt of the market impact as far as the number of transactions and a reduction in sale prices are concerned. Mid-sized and smaller aircraft appear less impacted with respect to value and transactions.

Another noticeable difference was that legacy aircraft seemed to have gained momentum more obviously than newer, higher cost aircraft. As appraisers we saw many more transactions and requests for older aircraft values as well as for smaller aircraft. As an aside, from January to June 2020 there were just three pre-owned G650ERS sold. Since then, 7 or 8 have transacted with several more under contract. They’ve come down in price enough to "hit the sweet spot".

Once we overlay the global pandemic with the obvious political turmoil and unrest, with Brexit uncertainty, with American election cycles, with record wildfire seasons in California, Australia, South America and Greece, this has been the year of living differently. If 2020 were a morning alarm clock, you would want to smash it, roll over and wake up again in 2021.

However, hearing from many of our colleagues and friends in the corporate jet sales and transactions world, 2020 (particularly the second half) is working out to have a bumper finish with more transactions in the last quarter than the rest of the year combined. This in itself is not unusual however is very welcome when we reflect on how the year could have finished. Many business aircraft brokers, appraisers, lawyers, financiers, insurers and escrow facilities that we interact with have been completely swamped with secondary market transactions and are looking forward to a big year end. Logistics and completions are still a challenge however as an industry, we seem to have a ‘let’s get through it’ attitude. By and large, we really want to see everyone having some success.
The Year of Living Differently (cont.)

What will we see in 2021?

To have any sense of accuracy in forecasting we really need a good baseline of assumptions on which to evaluate our estimates. And even then, our statisticians will remind us of a statement to the effect that ‘past performance is no guarantee of future results.’

Issues that will have impact on 2021 include:

• Will there be a vaccine to the pandemic and how effective will it be? How fast can it be rolled out?
• Will international borders be opened? If so, when?
• Will we still have to quarantine? For how long?
• Will commercial flights start to rebound?
• When will consumer confidence return?

These questions all seem to have a bearing on what we would refer to as ‘the resumption of normal’. At the risk of sounding resigned, I think that we are in the ‘normal’. Any improvement on current circumstances should be perceived as a bonus.

As far as business aviation goes, we are seeing asking prices stabilize, inventories of secondary aircraft either plateau or fall, and demand rise as entities identify a better way through the circumstances. Year on year, the market for secondary transactions is improving......

The general consensus among industry participants is that 2021 will be a continuation of the second half of 2020 with respect to secondary market transactions and values. The main issue that would halt that progress, or indeed retard it, would be further waves of infections of the pandemic when border lockdowns and restraints are put in place, again stifling the logistics of transaction completions.

What we haven’t seen too much of to date in 2020 are sales of new business aircraft. Yes, there are pre-existing orders being fulfilled. However, indications from GAMA are that business aircraft manufacturers are down 30% in general terms on their forecasts for 2020. Roughly 800 new jet deliveries were forecast for the industry this year; through Q3 2020, the number delivered is around 380, on our way to ~575-600 shipments for the year.

As an industry, we measure the success of the business by the number of new aircraft sales and, as we have seen, many of these will continue to be sold to first-time buyers. In a sense, the lower output of 2020 is like nature’s correction from previous periods of overproduction when whitetails were more commonplace, and the solution appeared to be that the salespeople needed to simply sell more aircraft. In more recent times, sanity appears to have prevailed and in the main, production numbers have been adjusted to be more in line with the capacity of the market to absorb the offerings.

Each of the major business jet manufacturers is currently releasing new aircraft models and variants - Bombardier, Dassault, Embraer, Gulfstream and Textron - with very exciting advances and inclusions. The market is eager to see them released to service and taken up by the operators and owners. Now that secondary inventories are beginning to stabilize, the level of balance appears to be returning to a reasonable equilibrium. As secondary inventories decline, demand for new aircraft will rise.

For 2021, it would be terrific to see a measured and considered approach by the OEMs that captures the imagination, desire, and capacity of the marketplace to absorb the advances.

For many of us, 2008 was the turning point in an industry that had gone from a very strong market, with long lead times and value stability, to an incredibly soft market, with cancelled orders and plummeting values....all within less than a year. In the case of this year, the uncertainty that was dominant in the 2nd quarter has been replaced with the recent optimism that 2020 had been but a temporary “speed-bump” in the market, not the abyss suffered 12 years ago, a low point from which the industry took too many years to recover.

So to get ready for 2021, perhaps the best way to prepare is to make sure that after the craziness of this year is done, we all take a deep breath before launching into a great new year... just make sure we have enough toilet paper!!!