

pre-purchase inspection should take place." In the old days, when it was more of a seller's market, the pre-purchase inspection would be done before the buyer committed any non-refundable deposit. It was done on the basis of a letter of intent, and once the aircraft had been inspected the purchase agreement could be signed.

"Now, however, the market has changed," he says. A letter of intent is signed, then within reasonable time the aircraft is reviewed, a test flight performed, and the lawyers are left to do the purchase agreement. Once all that has happened, the exact terms for managing the pre-purchase inspection and so on are drawn up, and only then does the inspection happen. "Otherwise, as a seller, you are running the risk of putting the aircraft into a maintenance facility where you open up the engines and invariably find a problem. Then if the buyer suddenly wants to withdraw, they walk away with no financial penalty and you are left with a bill that could run into hundreds of thousands of dollars. And no buyer." It is for this reason that Luxaviation, whether as buyer or seller, now insists that everything is detailed and in place before the aircraft goes in for its pre-purchase inspection. This way there can be no arguments afterwards.

Downward pressure on prices

Business development director at Geneva, Switzerland-headquartered Global Jet Concept Yann Nado knows that there are not enough buyers for all the aircraft available for sale and a few desperate sellers are accepting extremely low offers which tend to become the new standard. Manufacturers are promoting new aircraft models that put pressure on the pre-owned aircraft and as a result people who were in the midsize buyer category acquire large cabin aircraft with comparable operating costs. "Buyers know that having the money today means having the power to bargain and get an excellent deal," he says. "Sellers on the other hand want to get the best possible price for their aircraft and this is where the job of an aircraft sales person becomes challenging and interesting."

"We tried to trade in a few of our own aircraft and it was arduous"

Simon Ebert, Air Hamburg

With more and more interested parties entering the aircraft sales market, how does an aircraft owner know the best way to proceed? Nado says good advice should cover sales, marketing, engineering, legal and even operational and aircraft management detail, and points out that Global Jet Concept's in-house teams cover all such areas. Thus they are on the spot if there is a technical, legal or operational question from the buyer's team. "Agreeing on a fair price is important," he says, "but what is also extremely important is to close the sale in a short period of time and to reduce the discounts that the buyer will ask for during the sales process and pre-purchase inspection as much as possible."

He advises that having an exclusive mandate with a sales agent will avoid multiple companies offering the aircraft at different prices. "When we sign a new aircraft sale we organise high end advertising in brokerage magazines and online, we create attractive brochures and organise professional photo shoots and 3D videos because we believe a



According to Global Jet Concept's Yann Nado if you sell your current aircraft for less it also means you will be able to buy your next aircraft at a good price.

multi-million euro asset should be presented in the best possible way." And harking back to el Nour's comments at the beginning, he adds: "The emotional part of the sale shouldn't be underestimated."

The VAT minefield

Also forming part of the purchase process are financial matters such as depreciation and insurance, and more basic concerns like inspection and valuation. "Arguably one of the most complex considerations is the matter of tax," says Steve Cain, director - VAT at Isle of Man-based asset guardian Equiom Solutions. Value added tax (VAT) on goods and services can add significant costs to the overall purchase price.

Equiom is one of a number of importers that have achieved Authorised Economic Operator status, granted to those who demonstrate high standards in, and are actively involved in, customs operations. It enables a company to import without any requirement for bank guarantees or for the VAT to be physically paid. And since guarantees can be upwards of 18 per cent of an asset's value, that is a saving that could run into millions of dollars.

In summary, the supply of goods and services to aircraft and the acquisition (purchase, lease, etc) of aircraft are exempt of VAT provided the aircraft is used by airlines operating for reward and chiefly on international routes.

Is the market turning?

Steve Hartley, executive director of Dubai, UAE-headquartered Empire Aviation Group (EAG) sees signs that the market is on the turn. Whenever there are elections and major events in the US the market comes to a grinding halt, but EAG is experiencing a tremendous amount of activity



Air Hamburg's Simon Ebert is struggling to get a decent price for current stock.

there at the moment, so things are looking up. EAG's Dubai office is seeing more customers through its doors. They are not necessarily UAE-based customers, but they are regional customers.

"It definitely remains a buyer's market for the light and midsize aircraft," says Hartley. "For others, however, it is a seller's market and at the top end it's mixed. There are a lot of 7X/XRS available right now, we have just sold one ourselves, and there is price pressure on the 550 because of the new G600. The 450 and the 550 will become obsolete and won't be produced anymore and as for the 650, that is on the cusp. You can now buy a Global Express for less than eight million dollars, which is amazing."

"One of the issues we have," he adds, "is prospective buyers sitting on the fence and waiting to buy." If prices have reached rock bottom then that practice must end, and Hartley doesn't envisage more price drops in the immediate future. And if the US economy is turning, which he feels it is, prices will either stabilise or increase, which will be good for the industry.



Luxaviation UK's George Galanopoulos is seeing prices fall ever lower and tells potential owners it's a great time to buy.

The curse of online searching

"The online world has made things more difficult," he continues. "People believe that they can go on to the internet, do a search for used aircraft, and then they become an instant expert in terms of what's available or where they should be priced." This false confidence and expertise is very far from the reality, where a 2000 model aircraft could sell for more than a 2002 model because it has lower flying hours for example, or it may be on corporate care. There are so many variables. "But of course, people don't look at that. They just see this lovely aircraft advertised on the internet for x amount of dollars." It has made things a little tougher to overcome.

Nowadays people are more cautious. Once upon a time it was possible to draw up a one-page agreement. Today there are lawyers and 30 page documents. "People make a tremendous amount of money out of the process, which just drags on," says Hartley. "Time kills deals, and this fraternity has certainly mastered that art."

And this is not going to change. Aircraft sales and acquisitions is quite a tough industry to be in. "Having said that, at Empire Aviation Group we continue to sell a lot of aircraft and our management fleet continues to grow. Despite all the current negativity around the industry, it is still fantastic to be involved with business aviation."

Customer relationships

Buying and selling today comes down very much to relationships, and the level of comfort that people have with the organisation they're dealing with. EAG works with its clients to make sure their interests are protected when buying, and more importantly that they have some recourse against any factor that may fail them at some point during the process. Hartley credits EAG's success to this; the company has credibility within the region and its "pipeline has been pretty good". In the last year EAG has sold some big aircraft to local buyers, including two G650s.

Invest for sales efficiency

While 2016 remained a very challenging year across the business jet pre-owned market sectors, the people at Innotech-Execaire Aviation's UK office saw some bright spots and successes in Canada and into the US.

"One particular highlight," recalls regional director Andrew Pearce, "was selling an early serial number Challenger 300 at only \$500,000 below the asking price, which was set at 'fair market value'. In today's market that is quite a feat." The process was facilitated by ensuring

the aircraft was in excellent technical order with clean documentation, a clean and refreshed interior, and with the latest in cabin connectivity. All of which was a major help in placing the aircraft ahead of similar aged aircraft on the market.

Innotech Aviation of Montreal, a Canadian Accredited Centre of Excellence providing total support to the Bombardier Global and Challenger aircraft, supported a number of Innotech-Execaire 'asset enhancement' projects. In the main these were along the lines of upgrading or refurbishing interiors and installing the latest consumer electronics, CES and broadband systems off the back of a required major maintenance event. "Owners were willing to invest in these upgrades to keep their aircraft at the top of the available market options," says Pearce. "In fact, in some cases owners opted for these upgrades and then chose to keep on flying the aircraft rather than sell it."

Innotech Aviation also supported a number of pre-purchase inspections of those Global and Challenger series aircraft selling into North America, which remains the most active market according to Pearce. The UK and Germany also showed signs of improving interest: "We anticipate 2017 to continue to be a tough environment for pre-owned aircraft, but remain optimistic that there will be a steady improvement driven by increasing interest and demand," he concludes.

Economic waves

Ten years ago corporations had their own fleets, a few smaller owners had a few aircraft, factories had outstanding orders and there was a backlog on deliveries. More and more models were created, factories were springing up, and people who used to charter were starting to buy.

Then the industry suffered a multi-pronged attack as the world started to change. Business aviation's image was threatened and executives feared that aircraft ownership would not look good on the balance sheet in times of economic downturn. Fleets were disassembled and aircraft sold. Some had bought aircraft without proper appreciation of how, for example, maintenance costs make inroads into profit; the business model was not working.

"The online world has made things more difficult"

Steve Hartley, Empire Aviation Group

Nowadays the airways have opened up. Flying is so accessible and easy it can sometimes be more difficult to go by private jet. At Geneva the competition from low cost airlines means slots can be harder to come by for the private jet companies.

New regulations have come in so that, whereas in the past an aircraft could have a couple of clocks and dials, today customers want ADS-B in/out airspace surveillance technology; CPLD (complex programmable logic devices); wi-fi; and range. And they will more often than not want to buy an aircraft with an engine programme. The game has changed and so people moved away from aircraft ownership and many of the aircraft that were produced are now for sale, competing with stock from the OEMs. Whenever a new model is introduced, the older one is phased out and quickly loses value. And so, on the whole, buyers are negotiating themselves much better deals. ■