

TO: PAULINE SKYPALA
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Ever since the first private jet collided with the accountants and the auditors, we've been hearing about how these aircraft are really, really, a *productivity tool*, certainly not a *luxury good*. No indeed. Never mind the place of private jets in luxury market surveys, and their over-representation at the Aspen and Palm Beach County airports. To make the point, server farms full of pro formas and comparative cost what-ifs are running 24 hours a day around the world, just to be ready for any taxman's surprise visit.

I am not an ideological opponent of business jet use, so the Congressional humiliation of auto executives, bankers, and other employees of newly state-owned corporations didn't entertain me as much as it did others. However, the autos-da-fe, so to speak, along with the effects of the credit crunch on aircraft finance are, I believe, serving to finally rationalize the corporate jet market.

There are two keys to this transformation: the stigmatization of jet use as conspicuous consumption, and the current surplus of capacity. The business of operating jets will change, as a consequence of greater liquidity and reliability in the chartering market.

At the moment, there are just over two thousand used corporate jets for sale. That is about twice the total number of worldwide deliveries last year. "Backlogs" and "orders" in the business jet market are pretty soft numbers, since the manufacturers will do almost anything to avoid booking actual cancellations. There have been ups and downs in the bizjet industry before, but this cycle is different, not just a bit deeper. With newer entrants such as Embraer and Honda, jet prices are going to stay under pressure even in a recovery. Furthermore, owners of aircraft in a capital constrained world will be under more pressure to schedule and use them more efficiently.

I think this will be good, if painful in the short term, for the industry. After all, commercial airline travel was once a luxury good. Now that it's a mass market, there are orders of magnitude more aircraft, on tighter schedules, with much greater reliability and macroeconomic value. However, large commercial aircraft cannot accommodate all the travel requirements created by a decentralized world.

More business jet use, though, will be done through brokered charters. A seat, even a large size leather seat with a bigger worktable, is going to be a commodity, and commodities prices are driven down to the marginal cost of production and distribution. The mystique of ownership, whether of vacation homes or aircraft, will not be as supportable as it was when there were cheap put options written by the lenders.

Chartering jets has been a chancy thing in the past. The aircraft owners with whom you would deal were more interested in placing their planes than serving the

customer. So well maintained, or new, or correctly sized aircraft were not reliably on offer.

The present overhang of plane supply has reduced that problem. Jet charter brokers, who work for the user rather than the owner, are now bigger factors than they were. They can be used to find newer, cheaper, and better aircraft on the now more liquid offer side.

Ricky Sitomer, the CEO of Blue Star jets, a large New York charter broker, says “Even with the stock market rebound, this is a value-proposition market now. Clients are far more prudent, and there has been a big trade-down effect. Chartering is a beneficiary of that.”

Blue Star has set up Share A Jet Exchange, which as the name suggests, brokers flight sharing for its customer base. This would not have been so cool in the bubblicious days, but now it is.

The economics are, in truth, getting more compelling. For example, a Hawker 800 jet flying from New York to LA with 8 seats could be chartered recently for \$24,000. If four of those seats were shared for a stopoff in Sacramento, they’d go for \$3000 each. That’s more than the \$700 or so that a first class ticket would cost, but more than seven hours of travel time each would be saved, given the more direct connection. If you price the travelers’ time at a law partner hourly rate of \$800, the private jet really is a cash-cost saver. I know more than I wish I did about travel to Sacramento and law firm billing, so those are real numbers.

A very likely losing model in this new world will be fractional jet ownership. Getting one-quarter or one-eighth of a plane made some sense in a world of scarce jets, but not with that two year supply overhang. You do better in today’s more liquid spot charter market, with greater flexibility of aircraft type.

On the other hand, if you have factories, stores, or oil rigs around the landscape, you will want to own your own aircraft. Charters, let alone shared rides, aren’t reliably available in smaller places.

A word of advice on ‘jet cards’, or prepaid rights to so many hours of jet charters: Do not take the counterparty risk of the charterer or broker. Get your jet card account segregated in escrow, so you are not a general creditor in the event of insolvency.