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**BACK**



FlairJet's David Fletcher, happy with the value and operation of the Phenom 100, is looking at Phenom 300s.

**Special Focus – Buying with confidence Part 1: The hunt is always on for aircraft that will do the job and hold their value well**

March 3, 2010:

Astute aircraft purchasers identify aircraft that will not just fulfill their desired role profitably and cost-effectively but will also hold their value well in good and bad times. It is a tall order and due diligence criteria obviously differ widely between new and pre-owned aircraft.

At the top end of the private charter market, companies that have judiciously converted large pre-owned acquisitions into luxurious business and leisure aircraft are seeing a fair return on their investment. And case studies and market analyses support the conclusion that many buyers of new Mustangs and Phenoms are now well-placed for the future.

Hans Pfeiffer, co-founder of the Dusseldorf-based Triple Alpha which has 15 managed aircraft in its fleet, says the company focuses on aircraft that are likely to hold value well while meeting an identified market demand. "The choice of aircraft largely determines the route that a buyer might take. The Phenom 300, for instance, looks to be an aircraft that is right for national markets like Germany and the requirements of Europe," he explains. "It can be expected to hold its value comparatively well. In the case of a purchase of this aircraft it would be very much a case of negotiating with the manufacturer. Even in the economic downturn those who have purchased a position want a good enough premium to show a profit."

Triple Alpha, part of the Ocean Sky Aviation Group, says that the company is also looking at bringing in a Phenom 100 at the right price. "One of the most important things is not to pay over the odds," says Pfeiffer.

The UK's FlairJet is happy that its two Phenom 100s will meet the value criteria and its ceo David Fletcher says it is now looking at adding two Phenom 300s. And George Galanopoulos, md of the UK's London Executive Aviation is another who predicts that both Mustangs and Phenoms will do well in Europe. So how do other buyers get to the stage where they are happy with what they've acquired and are likely to go for more of the same?

**Delivery dilemmas**

They will need to make the correct decisions well before the operational stage, from market analysis and purchase right through to final delivery. And the delivery of Phenoms from South America to buyers in Europe and the Middle East can be far from straightforward.

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Chris Rycroft, who purchased a Phenom 100 as a private owner, decided to call in experts. The decision delegated a testing five-day flight which was managed and organised by JetSolutions (Europe) and Robert Posselt. The experiences of pilot Bill Minkoff, accompanied on the first leg to the US by first officer Allan Howell and up the East Coast, across the North Atlantic and into the UK by first officer William Rowell, proved it can pay for owners to delegate delivery.

The Phenom 100 faced extreme turbulence and torrential rain after take off from Fort Lauderdale but handled perfectly. After a 24-hour weather delay with heavy snow along the entire North East coast, the Phenom 100 landed and managed the wet runways of Bangor Main and Goose Bay perfectly. Minkoff says: "Approaching the landing strip at Kangerlussuaq in Greenland was reminiscent of my early flying career with the US Navy when I had to accomplish a landing onboard an aircraft carrier at sea."

Then it was on to Reykjavik for an overnight stop before entry into the UK via Wick in Scotland. The aircraft was finally safely delivered to Rycroft in Leeds five days after initial take-off.

The Czech Republic's Grossmann Jet Services is strongly focusing on VLJs while still servicing demand in the heavy and midsize ranges. Industry contacts and knowledge are key. Dagmar Grossmann, CEO, says: "I know the people I deal with personally, including the brokers and the suppliers. I choose the best but the selection of manufacturer depends on the needs and preferences of the clients."

She says that now may be a good time to buy because there is scope for bargaining with the manufacturers. But she warns: "This scenario will last maybe for only one or perhaps two years. The disadvantage is that if you want to sell you have a reverse situation, so it means that buying is only interesting if you stay with the chosen aircraft for at least five years."

Grossmann says she relies on her personal knowledge and contacts. "I use several brokers that I have found to be trustworthy over the years. If the jet is pre-owned the technical status is critical but GJS is very strong on the technical side.

"Maintenance is absolutely critical," she points out, "as safety always comes first." The need for due diligence does not finish with choosing the aircraft. Phill Rawlins, director of Rade Aviation Ltd warns that problem-free delivery cannot be taken for granted. "All aircraft entering and transiting Europe that have not been imported and have had VAT paid must be entered into a customs procedure, be it import, temporary import or community transit (T1) although special dispensation is given for scheduled airline operators."

He explains: "This particularly affects imported aircraft and with VLJs being ever more popular and turboprops being an economic alternative, there are more aircraft on import delivery whose range restricts them from direct entry from outside the EU to the point of import.

"Traditionally a number of aircraft stop in Scotland and across the UK for fuel and this becomes their entry point in the EU. What many operators are not aware of is, once the aircraft lands in the UK, then VAT is due to be paid before the aircraft can be moved again regardless of any pending import elsewhere. And this also affects aircraft going outside of the EU."

For example, a Mustang being delivered to the UAE could be seriously held up in Europe if customs clearances are not sought. The T1 procedure allows the aircraft to continue on its trip to point of import or exit from the EU. Rawlins says: "This is a simple and straightforward procedure and when arranged in advance will prevent any delays and in many cases clear the aircraft upon arrival in the UK so further travel is not impeded in any way."

T1s can be issued at all UK aerodromes covered by a customs office or agreement, generally speaking the majority of airports that can accept an international flight.

Failure to comply has led to many aircraft being stopped and impounded until the issue has been resolved - usually by intervention of a specialist customs agent such as Rade Aviation.

#### Maintenance records

The complexities and pitfalls of choosing the right pre-owned aircraft, however, can make even the organisation of round-the-world delivery of new aircraft seem relatively straightforward. David Leach, a director of the UK's Essex-based Aviation Quality Management Services (AQMS), warns: "It is a very good time to buy both new and second hand aircraft but care needs to be taken to ensure that the aircraft is not going to cost you your livelihood."

AQMS has been called in to help companies to check their records because of issues of non-compliance on recently purchased aircraft.

Leach says: "There are a large number of used aircraft available at bargain prices. But several cases we have come across recently show that, without due diligence, millions can be spent on an aircraft. Buyers' concerns tend to focus on range, capacity, livery, design of the interior, and what registration tag is available - not always in that order - and the airworthiness and maintenance history of the aircraft may be given scant consideration until a problem arises."

Leach tells purchasers: "To protect your asset due diligence means that you need to ensure a thorough inspection of the records is carried out before a decision on purchase is made. We have come across several cases recently where incomplete and/or inaccurate records has meant that an outlay of hundreds of thousands - sometimes going into six figures - is needed to make the aircraft airworthy and to allow an ARC to be issued."

Leach, a quality manager for more than 10 years who sits on the British Business and General Aviation (BBGA) engineering committee, says an existing ARC issued by an EASA country should provide the purchaser with reassurance that all is well but not all countries require that the same records be kept, or agree on the length of time that they should be kept for.

"EASA is still working towards a partnership agreement with member states about what should be kept and for how long. Until this agreement is made and ratified we advise clients not to dispose of any aircraft records, particularly 'dirty fingerprint' copies of work packs which will often give evidence that an airworthiness directive has been complied with.

Aircraft from outside EASA can present an even greater difficulty as often these valuable documents are missing." Aircraft records, Leach says, are more important now than ever before. "Without the correct records your aircraft can lose value, be un-exportable or even grounded completely. Lack of good record keeping can also affect an insurance claim.

"For example, within the EASA member states there are currently different requirements about what records need to be kept. The CAA advises that dirty fingerprint work cards may be discarded once scanned. This is fine under the current rules and while the aircraft is on the UK register, but if you want to export your aircraft to another EASA state, the importing NAA may require all dirty fingerprint copies to be available for import C of A's and full back to birth records."

EASA currently has a working group to standardise the requirements across the European Union. But Leach says: "We do not yet know whether the new requirements will follow the CAA model or something else altogether. This means that there is a risk that you may have problems renewing airworthiness certificates if you discard something that is later required. Likewise the introduction of EASA Part M has meant that some aircraft have been grounded or even scrapped because the cost of redoing work that cannot be proven to have been certificated is greater than the value of the aircraft."

Once an aircraft goes in for maintenance the owner needs to ask for copies of all EASA Form 1s and 8130s to be attached to the work pack documentation and returned, and keep these with the records. Traceability of components is required and the batch or serial number of the component may not be of any use if the Part 145 organisation has ceased trading. EASA Form 1 and 8130 are the legal documents that certify components as fit for service and contain all information required to meet the traceability criteria.

Leach warns: "Records are more important now than ever before. Ensuring that yours are kept well helps to keep your aircraft flying and maintain its value, you should have no problems getting an ARC and your commercial viability is not damaged by expensive and unnecessary maintenance keeping your aircraft in the hangar."

#### Bespoke needs

But buyers should be wary of a bargain even with full records if its advantages are not tailored to operational needs. Capt Tony Corlett, md of The Private Jet Company based in the Isle of Man, points out that each buyers' needs tend to be unique. "Only after careful consideration as to what they plan to do with the aircraft can we advise properly. We will fully discuss requirements during an initial meeting."

He adds: "We also have a good working relationship with the major manufacturers enabling us to deal directly and in a timely manner on new aircraft. This allows us to fully spec the new purchase in accordance with client wishes. Specifying equipment in an aircraft is a specialist job; getting it wrong can make a huge difference to its value in years to come."

The Private Jet Company, he says, has a strong global network of associates who work to fulfill exact requirements. "Once sourced our surveyors will give the aircraft a full check to make sure it meets our strict standards, as well as make sure that it has the appropriate equipment to fly through known relevant countries. Our searches will ensure all relevant aircraft certificates, paperwork, engine maintenance programs etc are present, correct and up-to-date. This is an extremely important part of the process.

"Once the aircraft has passed its survey we can arrange finance if required, organise insurance, source crew and arrange any crew training that may be required. We will then go on to deliver the aircraft. In simple terms we will make sure that the whole process from your decision to purchase up to delivery runs as smoothly as possible."

The company also offers aircraft management covering maintenance, financial monitoring and reporting, sourcing hangarage at the aircraft's base or offering hangarage on the Isle of Man at Ronaldsway. "This is a service that The Private Jet Company will be increasing when it completes its business aviation facility at Isle of Man airport towards the end of 2010, when we will also be able to offer hangarage to visiting aircraft."

Owners also need to choose the right jurisdiction in which to register their aircraft.

The Isle of Man, Corlett points out, provides company formation and fiduciary services as well as the Isle of Man aircraft register. "We can arrange everything from the sale of aircraft right through to the delivery and management - or we can simply provide support and advice derived from our 25 years of operating private jets."

#### Pricing context

Low prices in themselves may not be good value. Dennis Rousseau ,president of AircraftPost.com says: "As current market data provides a very myopic perspective in the buying process, it is critical to be informed on fleet statistics including original cost new, standard equipment, interior configurations, inspection cycles et al and recent sales over periods ranging from 30 days to six or 12 months."

Current market data can still be helpful in determining the percentage of the fleet available and provide a guide on ask price. But Rousseau warns: "If the majority of aircraft are priced at make offer, further investigation would be warranted to determine the underlying reason. If there is 15 per cent of the available fleet on the market, a prospective buyer can get an idea of average equipment and total time by year, and determine percentages of those with an engine program and options. Also it is advisable to compare pricing, times, equipment etc for competing makes or models. Further, one should try to acquire an aircraft with the required options installed, as it is always more costly, in downtime and cash terms, to incorporate after the fact."

The majority of pre-owned aircraft sold from the EU and Middle East into those same markets today seem to originate in the US and are exported. Rousseau points out: "A few years back the majority sold from the North American market to North America."

Due to the customisation as well as globalisation of business jets an owner needs to peruse the global marketplace to get a good cross section of the market.

Business jet market prices are down 40 per cent from the height in 2008 and on average 15 per cent below market value. "Historically, recoveries in the business jet market have lagged behind economic recoveries by 18 months. If the current recovery started in the third quarter of 2009, the business aircraft market should recover in the first quarter of next year, but once again, this recession is not like others, there are different dynamics in play," Rousseau says.

Some OEMs have indicated that new business jet deliveries are projected to decline further, before starting a recovery in 2011. Business jets, though, are selling in the medium and long range categories. Rousseau adds: "Some 50 per cent more aircraft were sold in 2009 than in 2008 although the majority are selling at an average 15 per cent below market value or 50 per cent less than market price at the height of

the market."

Buyers, he says, must realise business jets are depreciating assets, not commodities, and typically have a useful life of 30 years "From a very simplistic view, if we were to focus more on market values, when buying, selling, lending or upgrading, we could perhaps be on more stable footing during the economic swings."

AircraftPost, a web-based information resource providing real-time valuations for owners of select business jets, has launched a real-time current market feature detailing make, model, serial number, asking price, photos, condensed specification, owner/broker contacts, market summary showing total aircraft on the market, average market time and high/low ask prices.

#### Useful contact details from the Handbook of Business Aviation in Europe

<a href="#">Triple Alpha</a>	Charter
<a href="#">FlairJet</a>	Charter
<a href="#">Jet Solutions</a>	Charter Brokers
<a href="#">Grossmann Jet Service</a>	Charter
<a href="#">Rade Aviation</a>	Flight Support
Aviation Quality Management Services	Certification Services, Consultancy, Training/Simulation
BBGA	Associations
Private Jet Group International	Consultancy, Insurance, Finance & Leasing
AircraftPost	Pre-owned Aircraft, Consultancy