



Clouds of downturn slowly start to lift

A halting recovery after the financial crisis is evidence of a fundamental shift, writes **Pilita Clark**

Corporate profits have recovered, so have stock markets and Wall Street bonuses.

But nearly three years after the collapse of the Lehman Brothers investment bank and the worst of the global financial crisis, the traditional drivers of demand for business jets have failed to bounce the industry back into anything that could be called a strong recovery.

"We hit rock bottom and now we're crawling back up," says Richard Aboulafia of the Teal Group consultancy in Virginia.

Crawling may be the operative word in an industry that was probably one of the worst hit in the world during the downturn.

Swollen inventories of used business jets have started inching down. And the rate of business jet operations has picked up.

UBS's latest business jet survey, which tracks executive aircraft take-offs and landings throughout the US, shows they were 4 per cent higher in March than the same month a year

ago. That increase, plus the lower inventories of used aircraft, "are reflective of an early-stage recovery", say UBS analysts.

Inventories and flight cycles are important indicators of demand for new aircraft orders. Jets tend not to be replaced until they have been used a lot. And people do not buy new aircraft if good used ones are available at rock-bottom prices.

But prices of used jets remain strikingly low, especially for small and medium-sized aircraft – relatively new aircraft can be bought for 25 per cent or 30 per cent less than their price when new.

A quick trawl of the online adverts for these types of used jets will turn up dozens of aircraft from manufacturers such as Hawker Beechcraft and Cessna in the US, who between them laid off hundreds of workers during the downturn.

It is a different story at the upper end of the market, where prices for larger jets costing \$25m-plus have not been hit nearly as hard.

Mr Aboulafia says this gap is unprecedented. "If you are in the \$25m and above range you never really felt any pain. And the recovery has come faster in that sector too, which means we are looking at a permanent restructuring of the industry," he says. "It will be more top-heavy."

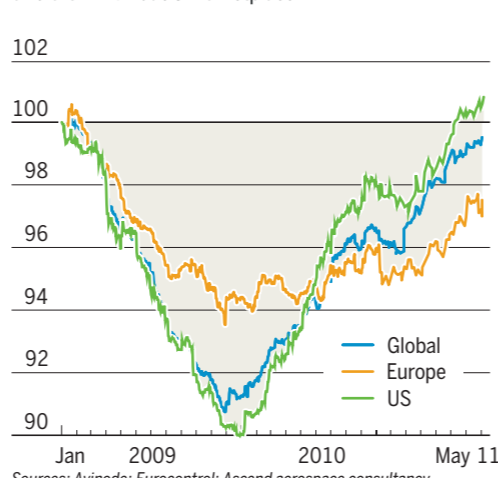
Rising trends: business aviation fights hard to climb



Photo: Dreamstime

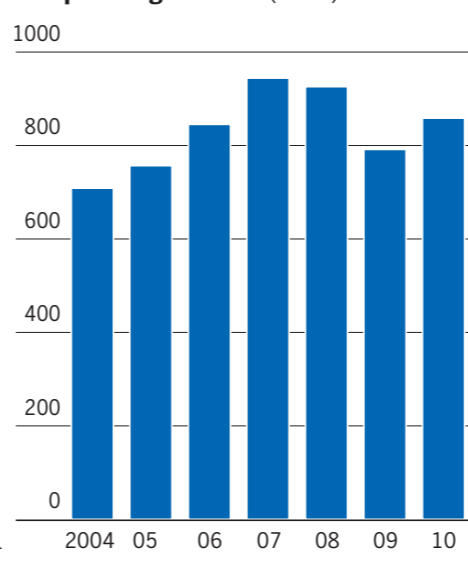
Avinode Price Index Jan 1 2009=100

This broad-based index displays average price per hour (taxi rate + fuel surcharges) for all active aircraft in Avinode's marketplace

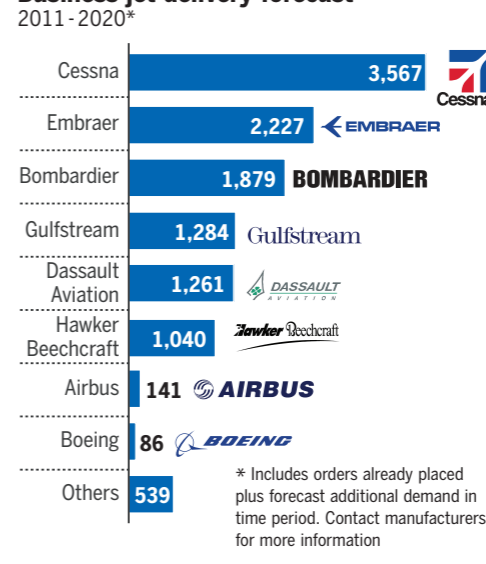


Sources: Avinode; Eurocontrol; Ascend aerospace consultancy

European flight hours ('000s)



Business jet delivery forecast 2011-2020*



* Includes orders already placed plus forecast additional demand in time period. Contact manufacturers for more information

He pinpoints several factors behind the divide, such as the greater immunity of the very wealthy to the tighter financing conditions that emerged during the financial crisis.

"Eighty-five per cent of customers at the top half of the market self-finance. It's the equivalent of turning up with a Samsonite full of cash.

"Everyone else needs to get a mortgage and one of the defining characteristics of this downturn has been the difficulty of getting finance."

Fletcher Aldredge, publisher of the V-Ref aircraft price guide in the US, agrees this is a critical factor.

He says: "It appears that, for almost 90 per cent of the aircraft being sold, the buyers don't need a loan. That is true from a half-million-dollar single-engine aircraft to a \$50m jet.

"That was not always the case. In fact in 2006-2007, it was almost the other way round. Probably 70 to 80 per cent of buyers were getting loans."

But Mr Aboulafia and others

say prices at the top end of the market have also been propped up by wealthy buyers in emerging markets, where "their idea of a downturn is 7 per cent growth".

Jahid Fazal-Karim, co-owner of North Carolina-based Jetcraft, a business jet brokerage, says that this trend is important.

"I'm probably aware of at least 40 new transactions in China in the past six to eight months," he said. "In the past six months, we did at least 10

new and pre-owned deals in China."

That has made a big difference to the market compared with what it looked like after, say, the 2001 downturn, he says.

"When you look at where we were in 2001, we didn't have such strong emerging markets to support the overall global economy. Seventy per cent of sales in those days were in North America, basically the US. Today, the split is the other way round. In fact, in big airplanes, it's almost an 80:20 split.

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Corporate Aviation

Carriers climb aboard private jet bandwagon

Airline partnerships

Premium-class passengers are increasingly being offered private feeder services, says Gill Plimmer

Anyone who has stepped exhausted off a long-haul airliner, only to be forced to wait in some airport lounge or restaurant for a scheduled connecting service, can see the appeal of travelling by private jet for the final leg of the journey.

Airlines are keen to target this potentially lucrative market. Several carriers are considering either buying their own private jets or forming partnerships with corporate operators to offer add-on services to first- and business-class passengers.

Lufthansa has tried both methods – the partnership model, as well as running its own fleet. Two months ago the German flag-carrier struck a deal with NetJets Europe, the leading operator of corporate jets and a subsidiary of Berk-

shire Hathaway, the US group headed by Warren Buffett.

The service, branded Lufthansa Private Jets, will give long-haul first-class and business-class passengers the option of continuing their journeys within Europe by private jet.

Passengers will be charged a fixed price, depending on the aircraft size and route – and can book an optional limousine service to and from the aircraft. A Hawker light jet, which is ideal for short journeys, can be booked at prices starting at €141,000 for a minimum of 25 hours.

But the deal represents a U-turn for the German carrier. The two companies offered a similar deal four years ago but the relationship began to sour when increasing numbers of Lufthansa passengers began using the service to connect to and from other European cities served by Lufthansa, essentially poaching some of the German airline's customers, according to some reports.

Lufthansa and NetJets Europe called off the deal and the German carrier bought its own fleet of business jets. It operated the service itself until – faced with its own financial difficulties in the

wake of the recession – it closed the division at the end of last year because it was unprofitable.

Now Lufthansa has gone back to NetJets Europe. With new management in place on both sides – and a clearer agreement – the two parties seem certain the tie-up will work.

Under the deal, Lufthansa has bought fractional shares in NetJets

You get a regular supply of customers because the service is marketed to all first-class and business-class travellers

Europe, opening up the private jet operator's fleet to its customers.

Emily Williams, vice-president of NetJets Europe, says the venture is showing promising signs even at this early stage, with Lufthansa already in the top 10 per cent of its customers in Europe.

"It's definitely a significant deal for

us," she says. "There's a natural overlap of customers anyway."

Customers on Lufthansa Private Jets receive the signature red rose that is a part of the German carrier's branding. But they benefit from NetJets's high-quality catering, with food from internationally renowned restaurants such as Nobu and Four Seasons.

"The whole aim is to make customers feel it is a premium service," Ms Williams adds.

More tie-ups of this kind are expected over the next few years, according to Alex Berry, marketing director at Chapman Freeborn, one of the world's largest charter aircraft brokers. It is already in talks with a number of operators to offer private connecting flights, and he expects to announce a deal this year.

There are advantages to both sides, he says. First, you get a regular supply of customers because the service is marketed to all first-class and business-class travellers; second, customers get a seamless high-quality treatment from the start to the end of their journey.

"If you fly in from Los Angeles, land in London but want to spend a week-

end in your house in Malaga, you either have to wait for a connection or you can get a private transfer.

"It can work the other way too – you live in Ibiza but need to get to Singapore so you catch a private jet to connect with a big international carrier. You can even get a tarmac to tarmac transfer so you don't have to enter the airport."

Using such a service may even be cheaper than travelling by airline, he adds, especially if there are six or more passengers in the party. "Think of the price of those first-class tickets," he says.

But not everyone believes the airline partnership model can succeed. Thomas Flohr, chairman of VistaJet, a branded charter group based in Switzerland, believes it will always be only a small part of a private jet operator's business.

"How many people are going to want to spend £10,000 on first-class flights and then another £10,000 for a short hop?" he says. "If you're that wealthy, it's cumbersome to get out of one jet and into another. I've never seen this model work anywhere in the world."

Clouds of downturn slowly start to lift

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have noted in recent research, the US alone has more than 10,000 business jets, against just 693 for all four Brics nations.

And there are still many obstacles to the Brics fleet growing fast in the near future. These include the limited numbers of secondary airports and fixed base operators (FBOs) in many of the four nations, as well as airspace constraints, lengthy permit processes and high user fees. Still, the prospect for growth in these markets is extremely promising.

But even in the US there have been signs of improvement in recent months. In March, NetJets, the US fractional operator, announced a \$6.7bn order for 120 Global business aircraft from Canada's Bombardier.

That consisted of 50 firm orders for jets due to be delivered at the end of 2012 and options for another 70 aircraft. And it came on the heels of another NetJets order for 125 smaller Phenom 300 jets in October last year from Brazil's Embraer. The positive news marks a turnaround for the fractional sector, which suffered badly during the downturn.

And as industry leaders prepare to gather in Geneva for this year's European Business Aviation Convention & Exhibition (Ebac), which opens on May 17, many are starting to sound more optimistic than they have in the past.

Ahead of the convention, Hawker Beechcraft announced it was opening its first customer

'We're definitely seeing more interest in new aircraft sales and more activity in the market'

gallery/shop in London, in the plush Claridge's Hotel in Mayfair.

The company says it expects to see a growing number of potential clients in London, especially once visitors start arriving for the Olympic Games next year. "We're definitely seeing more interest in new aircraft sales and more activity in the market," says Kirsten Bartok, Hawker Beechcraft's vice-president for global aircraft financing.

"Throughout the winter, we were seeing enough activity to say that people feel like the economy is on the upswing. There is no longer the fear that the ground is going to fall from under you. In the last few weeks, given the ongoing turmoil in the Middle East and the questions about China's future rate of growth, there are some questions about the pace of the recovery. On the margin, though, we are optimistic."

Still, that does not mean that conditions are looking nearly as positive as many would like, especially as high oil prices, the Middle East unrest and sovereign debt woes continue to rattle confidence.

As V-Ref's Mr Aldredge put it in a recent newsletter: "Few people would deny the current recession (though declared over many months ago) is unlike any before it."

"We hate to use the tired old phrase 'the new normal', but careful buyers and cautious lenders are likely to define the resale market for much of 2011."

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Numbers make fractionals a tough sell

Shared ownership

Despite NetJets' new confidence, the model is under threat, reports Gill Plimmer

Many of the world's wealthiest people were forced to sell their private jets during the financial crisis as they tightened their belts and avoided flaunting their riches.

Fractional ownership schemes – which work for aircraft in much the same way as they do for timeshare property – were also hit as the wealthy shied away from buying stakes in private jets.

But US-based NetJets, which pioneered the fractional ownership model, is convinced that there will be a rebound in luxury travel over the next few years.

After cancelling billions of dollars' worth of new aircraft orders last year, the privately owned company placed a record order for 120 large aircraft in March, to add to its 800-strong worldwide fleet.

NetJets says that falling prices of fractional shares could prompt more people to consider buying.

Moreover, the recession might also generate new buyers by driving more companies and individuals to consider sharing assets rather than owning them outright.

Emily Williams, vice-president of NetJets Europe, says: "We've benefited from people wanting to sell their jets."

"It's a no-brainer. Unless you're flying more than 400 hours a year, it's uneconomic to have your own aircraft. The hassle and the bother of maintaining a flight department for just one or two aircraft just doesn't stack up."

Flight hours fell about 20 per cent in 2009 at NetJets Europe, Ms Williams says. But they started to creep back last year and have continued to move steadily upwards this year.

"The market is really going to bounce back in 2013. It's a strong model. We're starting to see growth in some territories," she says.

But not everyone is convinced that fractional ownership is a sustainable model for the private jet sector.

Alex Berry, marketing director at Chapman Freeborn, one of the world's largest aircraft charter brokers, says the fractional model is expensive, with many of the world's wealthiest flyers opting for charter flights that require no long-term commitment.

"The heyday of business aviation was between 2004 and 2008, but many people considered themselves over-charged on fractional schemes so have been shifting their business," he says.

"Customers have no commitment to you other than

the last flight. They say what they want and we go and find the best deal possible."

Switzerland-based VistaJet is proving to be one of the most successful of the branded charter schemes.

Founded in 2004, VistaJet promises access to a business jet from just about anywhere within Europe, the Middle East and Asia for a fixed hourly rate, provided the customer buys a minimum number of flying hours in advance.

Thomas Flohr, chief executive of VistaJet, argues that by buying aircraft in bulk, the company is able to offer cheaper prices than fractional carriers and carry the asset risk, rather than passing it on to customers.

"If you want 200 hours a year of flying," he asks, "do you really want to buy a management agreement and 60-page document for an asset you can't even touch?"

He says demand for smaller aircraft is typically 25 to 30 per cent up on last year, with many of these customers having come from fractional schemes.

"A lot of people got badly burnt in the past 36 months," he says. "There were a lot of people who wanted to liquidate their assets, but you can only really sell your fractional stake to the party that sold it to you."

However, Ms Williams of NetJets says: "Of course, people look at charter but it is always going to be hard for charter to deliver the safety credentials that NetJets does, or the reliability of services just because they are going to the market every time."

"As long as we show small and steady growth and deliver value to customers, then we consider that a success."

In these tough market conditions, it could be said that no private jet model is 100 per cent safe.

But this has not stopped new types of private jet travel emerging.

Jet Connections, an executive aircraft management company based at London Oxford Airport in the UK, is offering to find up to three people to share the use of a jet with the owner.

The scheme is based on an annual contract between Jet Connections, the jet owner and those sharing the aircraft. By putting business jet travellers in touch with owners, the owner's costs are shared, and Jet Connections runs a management contract.

Tariq Deir, director of operations at Jet Connections, says: "If you own a private aircraft, it costs you money even when you're not using it. Our programme offers you much better value on your asset."

"While the advantages of owning an aircraft are numerous, so are the costs."

"A private aircraft is very expensive to purchase and comes with many added expenses, for example, hiring and training pilots, maintenance, insurance, and management."

He says his service works for those who have a "reason to own a private jet, but can't justify the expense of owning the aircraft outright".



Overshadowed: an overhang of supply is still making it hard for buyers to trade up

Alamy Images

Decline in stock of aircraft for sale points to recovery

Used jets

Falling prices keep up the pressure on sales of new aircraft, writes Kevin Done

The glut of used business jets on offer around the world is gradually being reduced, but the recovery is proving a slow process.

The overhang of supply is still hampering the sale of new jets, and prices are far below the heyday of the bubble market before the collapse of the world economy nearly three years ago.

A very high level of used inventories makes it tough for would-be buyers to sell their existing aircraft so as to buy new jets, says Barry Mackinnon, director of market development at Bombardier Business Aircraft. "About 60 per cent of owners trade up, but with a big used inventory it becomes much more difficult to trade in."

The overall business jet market has improved since the darkest days of 2009, however, and Pierre Beaudoin, Bombardier chief executive, recently told investors "we seem to have turned the corner, with business jet orders picking up substantially in the fourth quarter" of 2010.

According to the latest UBS monthly report on executive jets, inventories of business jets available for sale declined by 1 per cent in April and were about 15 per cent below the peak set in May 2009.

David Strauss, UBS business

aviation analyst, estimates that available inventories represent 14 per cent of the installed base of business jets, down from the peak of 18 per cent but still above the historical average of 12-13 per cent.

Inventories of young available aircraft (up to 10 years old) fell by 2 per cent in April, he says, and are now 24 per cent below the 2009 peak. But average asking prices for the newer models declined for the fourth straight month.

According to UBS, recent improvements both in its monthly survey of business confidence in the sector and in other key indicators such as increased flight activity and the lower used inventories "are reflective of an early-stage recovery".

Marwan Khalek, chief executive of Gama, the UK-based business aviation services group and a leading European operator, with bases in the US and in the Middle East, says: "The marketplace at the moment is pretty stagnant – there is still surplus supply. This remains a buyer's market; prices are pretty low. There are no returns to the heady levels of 2007 and early 2008. People holding out for the sort of prices we saw in 2007 will wait a long time."

Many emails about used aircraft are still headlined "Motivated seller" or "Make an Offer" or "Price Reduced Again", he says. Overall, prices of used business jets have fallen about 50 per cent during the recession.

The picture is far from uniform, however, with the most acute pain still being suffered in the ranks of light and very light

jets, with sales of older models being particularly difficult or impossible to close. "At the lower end, it's pretty cut-throat – there is so much supply," says Mr Khalek.

Tim Barber, managing director of JetBrokers Europe, says: "There is a profusion of very light jets – mainly Cessna Mustangs and Embraer Phenom 100s – for sale, and the market is very slow. They are difficult to shift. A lot of people bought speculatively, then the market turned down." Distressed sales are common.

The market for midsized jets is also in the doldrums, but has been improving in recent

'There is a profusion of very light jets for sale and the market is very slow. They are difficult to shift'

months, while at the higher end of the market demand for large-cabin, long-range jets has sustained itself well throughout the recession.

There are not as many aircraft on offer, prices have firmed as used inventories have shrunk, and there are already signs that lead times for ordering and buying such jets new are lengthening again.

JetBrokers Europe, a brokerage for buying and selling used aircraft which shares its inventory with JetBrokers in the US, says it has experienced an increase in demand for midsized jets since the end of February.



Thomas Flohr: 'A lot of people got badly burnt'

Robinson R66 hopes to replace an ageing star

Flight test

The new model is bigger and faster than its piston-engined forebears, says Rohit Jaggi

I have been at the controls of the Robinson R66 helicopter for only a few minutes but am sufficiently at ease to hedge-hop my way across a section of deserted British farmland.

Skimming above bright yellow rape-seed crops and dark green pastures, the high-speed, low-level manoeuvring is giving me a feel for how simple it will be for pilots to adapt to the newest aircraft from Robinson Helicopter.

And an easy transition will be crucial if the California company's first turbine-powered helicopter is to have the substantial effect on the market that its piston-powered craft have.

Frank Robinson delivered his first little piston-engined R22 in 1979, and the success of the \$40,000 two-seat helicopter outstripped even his expectations. But its light weight and simple construction meant it was very sensitive to inputs on the flying controls – particularly the cyclic which tilts the main rotor and therefore determines the direction the aircraft flies in – making it difficult to master.

The bigger, four-seat R44 that came along 14 years later was also short on luggage capacity but was more stable – and its flying characteristics were improved further six years later with in-house-designed hydraulic controls.

The Robinsons have transformed the light helicopter landscape – about 10,000 have been sold in all and the latest prices of about \$425,000 for the R44 and \$260,000 for its smaller sibling are still on the low side in the world of rotary-wing craft.

But the \$800,000 R66 is not just competing with new helicopters. Mr Robinson told me the R66 had a specific



The Robinsons have transformed the light helicopter landscape and the five-seat R66's flexibility to carry more and go further will be welcomed by buyers Ed Robinson

aim – to replace an ageing star of the light charter and personal market, the 206B JetRanger from Bell Helicopter.

JetRangers, powered by a single turbine, are available used for R22 money – but they will be a couple of decades or more old, and thirsty both in fuel and in maintenance.

Buyers who are interested in the R66 will be looking to use the helicopter for personal, corporate or light charter work. While the new aircraft is just 5 knots or so faster than the admittedly fast R44, with a maximum

cruise speed of 120 knots (138 mph), it

has an extra 100lb payload to go with its fifth seat and big cargo area, plus a maximum range 25 miles further at 325 nautical miles (375 statute miles).

Skimming across a patchwork landscape of British fields and lakes, the R66 feels very similar to its four-seat sibling – but more forgiving and more refined. Minimal vibration reaches my right hand through the Robinson's trademark central cyclic.

Power from the Rolls-Royce RR300 turbine is available in abundance through the collective lever in my left hand. On a flight with four on board,

the only difference the extra weight of two people makes is that the helicopter lands flatter – as opposed to touching down first with the back of the skids when only two are on board.

That power allows for rapid rates of climb, and it means operations in hot and high conditions – where air is less dense – will present few problems.

A heavier rotor means more spare energy for landing safely in case of engine failure, too. Such an emergency is unlikely, though. Not only is the 300hp engine small and light, freeing space for the baggage compart-

ment, but the turbine engine should improve even on the piston-engined Robinsons' excellent reliability record.

Turbines are thirstier than piston engines, however – though jet fuel tends to be cheaper than avgas and availability is more assured. The company quotes an average fuel consumption of 23 US gallons an hour, against 14gph for the R44, and estimates direct operating costs at just under \$300 an hour, assuming the helicopter flies 500 hours a year. Robinson reckons that comes to an equivalent cost per road mile of \$1.43. That includes a reserve fund for a \$250,000 rebuild every 2,000 hours – the same sort of maintenance regime that, on the smaller helicopters, has contributed to very predictable costs. Robinson's figures for the R44 are less than \$200, or only just over \$1 per road mile.

The R66 has some neat touches, such as a high-tech system for monitoring engine parameters – so the pilot is alerted if an engine has been potentially damaged through an incorrect start. But while I found the start-up procedure straightforward, Robinson might more usefully have incorporated a fully automated engine control system.

A design imperative to make everything as simple as possible led to the retention of gauges rather than flat-panel displays – which could have had a greater range of functions and been lighter and less costly in the long run.

But one can understand the manufacturer working to keep the purchase price down. Sloane Helicopters in Sywell, Northamptonshire, one of two Robinson importers in the UK, says orders were hit hard by the downturn. But it is convinced that once European certification is granted, the future will look brighter.

Customers coming from JetRangers may find the R66 cramped in the back. But those with their hands on the controls, whether they last sat in an R44, a Bell or anything similar, are likely to find the transition easy – in terms of costs as much as flying.

ON FT.COM

See Rohit Jaggi's flight test of the Robinson R66 helicopter on video at www.ft.com/Robinson-R66



Jet finance takes off in tricky conditions

Funding

Loans for business jets are available again but they come at a price, writes Kevin Done



Kirsten Bartok: a 'gradual thaw' in aviation finance

The drought is over and finance is again being made available to fund business jet deals around the world. However, the cost of transactions has risen and conditions are much more onerous.

Financial institutions have become a lot more conservative in their lending to business aviation, after being burnt by the sector during the credit crunch and global downturn.

"They are looking hard at the credit, they need more equity in deals, funds are hard to get and, when you get them, they are more expensive," says Trevor Esling, vice-president for international sales at Cessna Aircraft of the US.

John Rosanvallon, chairman of the General Aviation Manufacturers Association in the US and chief executive of Dassault Falcon, the US operation of France's Dassault Aviation, expressed some optimism in February that signs of a recovery in the industry's fortunes had started to emerge. He was concerned, however, by the "sluggish" used market and lack of third-party financing, especially for the middle and light end of the business jet segment, and for turboprops and piston-engine aircraft.

Some manufacturers believe the funding environment for corporate jets is improving, however, and is no longer such a daunting obstacle to progress.

According to Hawker Beechcraft, the overall cost of aircraft financing has decreased in the past 24 months compared with prices during the worst of the economic downturn, and buyers are securing better access to funds.

The US jet maker believes these trends are being helped by the gradual global economic recovery, as well as by an increase in the knowledge and sophistication of the key players in aircraft asset-based financing. There is also growing competition from local financial institutions, while manufacturers are becoming more active in assisting customers to find financing.

Kirsten Bartok, vice-president of global aircraft

financing at Hawker Beechcraft, spoke recently of "a gradual, yet consistent thaw" in the aviation finance sector during the past 12-24 months.

"A number of large commercial banks are looking to offer aviation finance in a growing number of countries outside western Europe and North America, and some smaller indigenous banks are looking to enter or expand their footprint in this market within their own countries, and in some cases beyond this."

Hawker says corporate jet makers are also working to help financial institutions develop a better under-

'New sources are emerging and players who disappeared are coming back'

standing of the industry and lay out their plans for future product development. This process could help reduce the asset-associated risk in transactions and could allow lending to more customers.

A key development in improving access to financing for corporate jet customers, in particular in emerging markets, has been the entry into the business aviation sector, virtually for the first time, of the export credit agencies (ECAs).

Institutions such as the US Ex-Im Bank and France's Coface have long been active in supporting commercial aircraft purchases, but the severity of the credit drought in the executive jet sector has also persuaded them to expand their activities into business aviation.

"We turned to Ex-Im Bank for exports from the US," says Cessna's Mr Esling. "They have plugged a lot of the gap left by the

absence of funding from normal commercial sources. Ex-Im Bank has been an extremely important part of our sales weaponry during the past 18 months."

In the second half of 2008 and 2009, credit deals were "dead in the water", says Mr Esling. "It was virtually impossible unless you were a AAA risk and even then it was extremely expensive."

Deals are being done, he says, but the banks are demanding much larger cash deposits of 20 to 40 per cent from buyers, and interest spreads are still high, although they have fallen back from the peak.

The big commercial banks also strongly favour larger transactions and are often reluctant to fall below a threshold of \$15m.

Brendan Lodge, business development director at Jet-Brokers Europe, says banks were unnerved by the steep fall in corporate jet residual values and have significantly tightened their lending terms and conditions.

Loan maturities have been reduced; as risk has grown, so-called "balloon payments" that allowed a lot of the amortisation to be postponed to the end of the loan, have been restricted; and banks are often demanding annual surveys of aircraft, further increasing costs.

The experience of repossession has shown the banks that financially troubled owners often stop maintaining their aircraft fully when funds run out. "The banks want the aircraft in tip-top condition, and this cost [for annual surveys] must be borne by owners."

Marc Meloche, vice-president of structured finance at Canada's Bombardier Aerospace, says the credit and financing environment is improving. Interest rate margins have come down from 4-5 per cent at the peak of the credit crisis to 2.5-3 per cent. "New funding sources are emerging, and players who disappeared are coming back."


Mr Meloche says there is growing interest from non-traditional markets in providing finance, such as China. "Chinese banks are involved, where you never heard of them three years ago."

Banks are much more rigorous in carrying out their due diligence investigations of business jet buyers, he says, "but there is more lending capacity being made available, and more challenging credits are starting to gain access to capital."


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Corporate Aviation

Swift climb leaves plenty of potential

China

Infrastructure is key to the growth of private aviation, says **Rahul Jacob**

As China's great leap forward from being a nominally Communist economy to hypercapitalism continues apace, it is becoming a more important buyer of luxury goods.

Automakers such as Mercedes-Benz have been tailoring products for the Chinese market. Hermes, meanwhile, has developed a brand specifically for China.

Similarly, the business jet manufacturers are seeing a boom in orders from China. On the sidelines of the Asian Aerospace show in Hong Kong in March, Roger Sperry, senior vice-president of international sales, at Gulfstream of the US, said that China had already become the biggest market in Asia for his company.

Mr Sperry reported that of a total of 142 Gulfstream aircraft in Asia, 30 are operating on the Chinese mainland and another 28 in Hong Kong, the former British colony that serves as a conduit to global capital markets.

This rapid growth is all the more surprising because it comes from a standing start. "There's never been a history of business aviation in China

– it's brand new," says Joe Lombardo, Gulfstream president. "It's well established in India and Australia. In the US, it's been there for 50 to 60 years."

The growth has been even more spectacular for Metrojet, a Hong Kong charter operator that manages business jets for wealthy individuals. The company had two aircraft on its books six years ago; it now has 26, and expects to have 30 by the end of this year. Bjorn Naf, the company's Swiss chief executive, says that the growth is not confined to his company – Hong Kong has as many as 55 private jets.

Still, Mr Naf feels that the rapid growth has prompted an even faster growth in expectations. The hype, he warns, is in danger of running ahead of reality.

The Chinese market does face significant hurdles. Among them is the need for more maintenance companies, easier approvals for business jets' flight plans, wider availability of aviation fuel, and a shift in attitudes to business aviation.

That is quite a long list for any country to work through. It is also starting from a low base. "If you have 120 business jets in China, that is a lot," says Mr Naf. "Compare that with the US, which has 13,000 aircraft." He and many others worry that China may be stretched to build the maintenance networks for such aircraft. "You don't have ground infrastructure," says Mr Naf. "All this takes time."



Trophy or tool? Potential buyers in Hong Kong and China are still puzzling that out Reuters

One problem is that business aircraft must fly into China's main airports – they cannot use smaller airports in the same way that business jets can use Biggin Hill for London and Teterboro for New York.

The congestion at China's leading airports, meanwhile, means that business

"There's never been a history of business aviation in China – it's brand new"

jets pay handling fees on a par with those charged to airliners.

However, China is renowned for swiftly marshalling the resources to meet infrastructure challenges. This is already starting, with dedicated business jet terminals in Shenzhen, Shanghai and Beijing. Gulfstream's Mr Sperry says the

opening of such facilities will be critical for the growth of the business aviation market in China.

Permits to fly into China for foreign-registered businesses now take three to four days – substantially down from the seven to 10 days of some years ago.

The Chinese military's tight regulation of airspace, however, continues to be a problem for commercial airliners and business jets alike. Operators draw unfavourable comparisons with the Philippines, India and Malaysia on this score.

But the ultimate challenge may be that corporate aircraft are still seen as the ultimate trophy rather than as a business tool allowing executives to get from point A to point B swiftly and seamlessly, conducting meetings with senior colleagues along the way.

Even that may be changing, according to an executive who declined to be named, who recently flew from Hong Kong to Mongo-

lia to attend a pre-initial public offering meeting with a Mongolian coal company.

There are no direct flights between Hong Kong and Mongolia, though they are scheduled to begin soon, so the journey would have been uncomfortably long without a private jet.

The executive reports that he had valuable time with his chairman along the way and that the departure from Hong Kong and landing in Mongolia could not have been smoother. Even refuelling in a place he had never heard of before – Taiyuan – was hassle-free.

Taiyuan in Shanxi, in fact, has been in the midst of a prolonged mining boom and is home to many of China's new millionaires.

In a country with a rapidly growing cohort of multimillionaires and billionaires, it is no wonder that business jet manufacturers are enjoying a huge increase in sales.



Rohit Jaggi
FLIGHT LINES

Ready for taxi

Air taxi operations were the subject of some of the biggest hype before the global economic downturn – and the biggest difficulties during it.

Indeed, there were so many claims made about the prospects for high-volume short-hop charter, using light or very light jets, that it was no surprise when many operations came crashing to the ground – or even failed to take off in the first place. DayJet of the US and JetBird of Europe were two of the highest-profile casualties.

Yet one European air taxi operator, Austria-based GlobeAir, continues to buck that trend. Set up in 2007, today it officially announces the doubling of its light jet fleet. The addition of another five Cessna Citation Mustangs at the same time is a challenge in itself. As Bernhard Fragner, GlobeAir chief executive, says, "We have to double nearly everything – team, crew, sales network, maintenance support."

Mr Fragner last year told me how the high utilisation of his – then smaller – fleet of Mustangs was proving a useful test bed for both aircraft maker Cessna and turbofan manufacturer Pratt & Whitney Canada. He also said that tight control of borrowing and costs meant his operation was profitable.

GlobeAir currently has about 30 per cent of the European market for commercial movements of light and very light aircraft, says Mr Fragner. It is aiming for 50 per cent by the end of the year, including an expansion into Turkey and elsewhere, adds Mauro De Rosa, GlobeAir chief marketing officer.

Would-be air taxi operators may have had to move more

towards a charter model to survive. But with the largest single fleet of Mustangs in the world, and options on another five, GlobeAir is adding to evidence that the high-volume model still has some mileage in it.

Fast art: the Paladino Piaggio P.180 Avanti II

Light speed

When I was in Italy last month to fly Piaggio Aero's P.180 Avanti II, the many-faceted links with history were striking. The Genoa company's business aircraft invites comparisons with the ill-fated Beech Starship executive turboprop, which tried to do too many new things at the same time, and ended ignominiously with Raytheon,

then Hawker Beechcraft's parent, trying to increase in sales.

buy all the existing aircraft to scrap them. The Avanti, while using a similar wing layout, avoided similar mistakes with weight. In fact, some items at the assembly plant at Cristoforo Colombo airport stood out for the opposite reason. I picked up an engine mount and found the shiny titanium tubing that handles the 850 shaft horsepower of each turboprop engine is lighter than any bicycle frame I've ever owned.

The main wing, meanwhile, is machined in two halves – flawless skin, reinforcing ribs and all – from solid blocks of aluminium alloy. This cuts the parts count, and weight, drastically from most metal wings, made from fabricated ribs and covered with a skin, all held together by rivets.

The history of the company has been less smooth. Piaggio Aero – part of the same group as the Vespa-making Piaggio scooter manufacturer until 1966 – overstretched itself and only a rescue by the Ferrari family and other investors in 1998 allowed the Avanti project to go ahead.

More recently the company sold stakes to Mubadala, the investment arm of the Abu Dhabi government, and Tata of India, each of which own about a third. Alberto Galassi, chief executive of Piaggio Aero, told me their involvement has brought not only financial stability but access to new markets. Two Avantis are being operated by a Tata company in India, for example.

This will help, as sales to traditional markets slowed sharply during the downturn, although special mission and medevac uses are showing promise.

I spoke to Mr Galassi in front of an Avanti II mock-up – with a distinctive design by renowned artist Mimmo Paladino that harks back in some respects to the technical sketches of Leonardo da Vinci – amid the historic buildings of Milan's Galleria Vittorio Emanuele II.

As for the actual Avanti II, its flying characteristics were not weighed down by any of this history. Quite the reverse.

My flight test of the Avanti II is in the forthcoming issue of FT Wealth magazine, out on May 27, and on video from then on the FT's dedicated microsite

www.ft.com/corporateaviation.

Looking up

The business aviation sector may still be cautious about prospects for sustained recovery. But Bob Horner, senior vice-president for sales at Bombardier Business

Aircraft, this month pointed to grounds for greater enthusiasm when he addressed the well-attended Aviation Supper Club in Farnborough, organised by Brendan Lodge of JetBrokers Europe.

"We could have sold the first batch of Global 7000s 15 times over," said Mr Horner. "The next Global Express position is not until 2015. The next Global 8000 is 2019. And we're still taking orders." "All the indicators point to an up."



Fast art: the Paladino Piaggio P.180 Avanti II

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