BUSINESS JET MARKET SLOWLY ASCENDING TO PRERECESSION LEVELS

News / Business aviation



The business jet market, a cash cow for Bombardier Inc. that financed much of the early development costs of its C Series plane, is recovering from the steep dive it took during the recession but has a long way to go before returning to the heady days of the mid-2000s.

Bombardier remains the biggest player by number of planes sold, but could be overtaken by Gulfstream this year after deliberately scaling back production as the market slipped.

Bombardier delivered 199 jets last year, but is expected to deliver 150 this year, compared with Gulfstream's 180, according to a market analysis done by investment firm J.P. Morgan.

"Part of the reason we made that decision was to protect the value of our aircraft overall and make sure we weren't oversupplying the market," Brad Nolen, Bombardier's director of product planning and strategy for business aircraft, said Tuesday.

"Our aircraft depreciated much, much less than our competitors," Mr. Nolen told reporters at Pearson International Airport in Toronto, where the company displayed its Learjet 75 on the

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ground and on a flight over Niagara Falls and cottage country north of the city.

As part of a realignment of its business jet operations, the aerospace giant also halted development of a new Learjet, the 85 and delayed two new, longer-range versions of its larger Global family of business jets amid an overall corporate cash crunch caused in part by delays in getting the C Series into the air.

The business jet market is “slowly getting back to prerecession levels,” Mr. Nolen said.

The market peaked in 2008 at 1,136 sales before the full force of the recession hit and fell to a low of 660 in 2013 before bouncing back slightly to 689 last year, the J.P. Morgan data show.

The market is closely linked to the stock market and growth in gross domestic product, Mr. Nolen noted.

“The other factor is capture rate of business aviation in a specific region – the number of business jets per billionaire or per $1-billion of GDP,” he said. There’s a much higher penetration of business jet owners by those measures in the United States than in Europe, China, India or Latin America, he said.

“As growth comes back in those emerging regions, the business jet market will pick up, but also the popularity of business jets is increasing every year.”

Profit margins on business jets stood at 7 per cent in the first quarter, up from the final quarter of 2015, Bombardier officials said last week on a conference call on the company’s first-quarter financial results.

The market has been “sort of stagnant like the rest of the economy,” said Ernie Arvai, who heads aviation consultancy the Arvai Group. “It just took a little bit of a dip in early 2016, so it’s not looking robust to get back to where we were.”

One of the bright spots for Bombardier is fractional ownership for companies and wealthy people who don’t want or need to own a jet exclusively.

Edmonton-based Aurora Jet Partners owns 12 jets now, has two more Bombardier planes on order and hopes to be up to 20 jets “as soon as we possibly can,” said president Bill McGoey, who attended the Bombardier event.

People or companies interested in buying fractional ownership of a plane can purchase 100 hours on the eight-seat Learjet 75 for $2-million – compared with the full list price of $13.5-million (U.S.) – pay a share of operating costs and share the plane with five other customers.

“There’s a lot of owners who want 100 hours or so who really don’t want to write a $13-million cheque for a whole airplane, but can afford a $2-million cheque that gets them 100 hours,” Mr. McGoey said. “With the economy the way it is, there’s a lot of owners who are trying to decide whether they need that full jet right now. Maybe they could downsize and just own a piece of a jet.”

He said business out of Edmonton has been affected by the downturn in the oil patch, but Vancouver and Toronto are booming.

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