CHINESE PRIVATE JET SALES SLUMP NEARS END

News / Business aviation



China's private jet sector is undergoing a transformation from individual to corporate ownership as first-generation buyers sell off their planes after realizing the huge operational commitments involved.

Private jet sales in China have been slow for about three years. The country's fleet of private jets grew by a net 13 aircraft last year as compared with a gain of 57 in 2013, according to data from Asian Sky Group, a business aviation consulting company in Hong Kong. It counted 20 planes leaving the country last year. Figures for the first half of 2017 suggest some improvement, with the country's business jet fleet growing by a net 17 planes.

Chinese President Xi Jinping's anti-corruption campaign has been a key factor in the slowdown. Business jets symbolize the kind of conspicuous consumption the central government has been clamping down on.

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More recently, however, industry players have attributed slow sales of new aircraft to the fact that a large number of secondhand jets have been coming onto the market. Jeffrey Lowe, managing director of Asian Sky, said this has created a supply/demand imbalance, which is only now showing signs of clearing.

The consultancy estimates that used business jets last year accounted for about half of both Chinese and overall Asia-Pacific sales, close to the norm in developed markets like the U.S. In 2015, new planes represented 62% of Asia-Pacific sales.

"But we do think the slowdown [in sales of new jets] is bottoming," he said. "Inventory levels are coming down, asking prices are no longer falling and the number of days it takes to sell a jet is flat-lining."

Lowe added that the profile of Chinese jet buyers is also changing. At the beginning of the decade,

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the typical purchaser was a tycoon who had never owned a private jet and would usually pay for his plane in cash. The planes were often used for personal missions such as ferrying children to overseas schools.

Many had no idea what they were getting themselves into. "They didn't realize how different it is to buying a car or a boat," said Thomas Flohr, founder and chairman of privately owned VistaJet, an operator of business jet charter flights. "Private jets ... incur high levels of operational and maintenance costs."

Flohr and Lowe both agree that industry dynamics are changing and following the U.S., where it is corporations rather than individuals purchasing planes for the purpose of enhancing business efficiency. In this case, the planes are financed from and held on corporate balance sheets, and managed through a corporate flight department.

Other Chinese companies are opting for charter services like VistaJet. "The cost benefits are very clear," Flohr said. "It costs $25,000 to $30,000 per hour to run a private jet based on 300 hours of flying time per year. We offer the same flying time for $16,000 to $18,000 per hour."

Greater China accounts for about 17% of VistaJet's new global business sales, up from about 5% two years ago.

The largest Asian charter operator is Deer Jet, a unit of China's HNA Group, but its fleet shrank from 68 planes at the end of 2014 to 47 last year, partly because of the retirement of older planes, according to an annual industry study by Asian Sky. The fleet was back up to 50 at the end of June. Business Aviation Asia, owned by China Minsheng Investment Group, is the second-largest operator, and it also has been paring its fleet.

Many other Chinese companies have waded into the market, sometimes simply to try to turn previously purchased jets into revenue generators. Nanshan Group, a Shandong-based conglomerate, now operates a fleet of seven planes available for charter, after starting just with founder Song Zuowen's private jet.

Another complication for business jet operations in China is airport capacity. "China's business jet industry is now challenged by its own success," said Mike Walsh, commercial director at Hong Kong Jet, another HNA-owned charter service. "For the past decade, it has been piggybacking on the existing infrastructure at commercial airports. But that infrastructure is now at full capacity and slots for private jets are being squeezed. Government support will help take the industry to the next level."

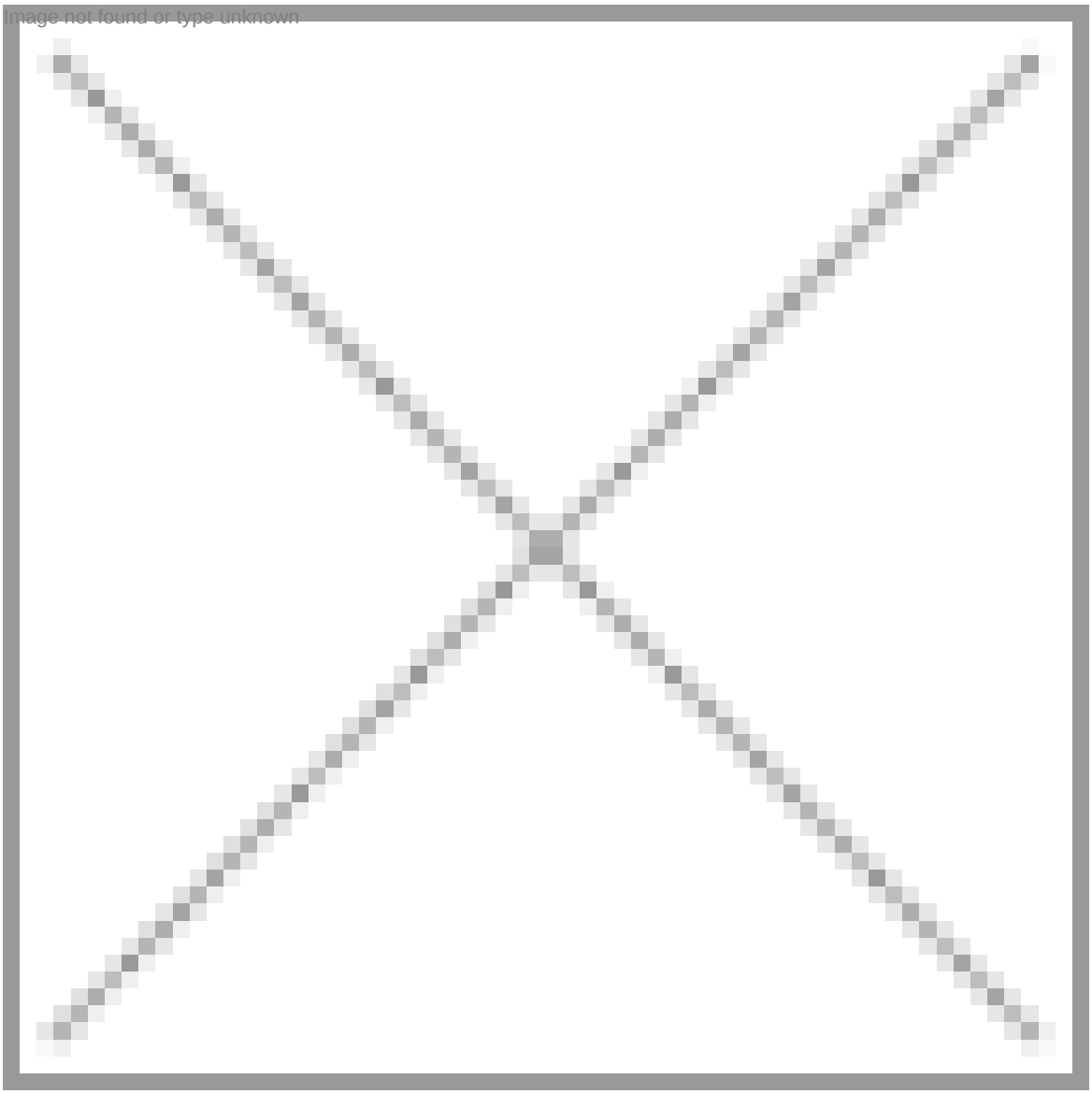
Industry players are hopeful that the capacity squeeze in Beijing will ease when the capital opens a new international airport in 2019. U.S. company Hawker Pacific Aerospace, meanwhile, has been expanding its business jet services at both of Shanghai's international airports, with a second hanger set to open at Hongqiao airport next year.

A business jet service center is also being set up at Guangzhou Baiyun International Airport. Meanwhile, the nearby city of Zhuhai, which borders Macau, is building a second airport for business aircraft and other general aviation users. Shenzhen Bao'an International Airport also has a business jet service center.

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"They are serious about opening up new airports and have been giving private jets more over-flight permits to use Chinese airspace," Flohr said, noting that the authorities are taking a cautious approach to growth. "China is simply at a much earlier stage in the lifecycle than the U.S."

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