

Worldwide Economic Woes Haven't Slowed the Private Aviation Market – Yet



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Raging inflation. Tumbling stock prices. Plummeting portfolios. Rising interest rates. Fears of recession. Dramatic price increases for jet fuel. A stubborn pandemic that refuses to recede. Supply chain woes. War in Ukraine. Sanctions on Russian aircraft.

The domestic and international economic news through the first six months of 2022 has been, for the most part, discouraging, but its impact thus far has been minimal in the private aviation industry.

As an attorney who advises clients on the purchase and sale of business and corporate aircraft from our Aerlex offices in Los Angeles, I have to pay careful attention to what is going on both in the general economy and specifically the private aviation industry. The warning lights are flashing yellow and red for the overall economy, but they're still blinking green in the corporate aircraft lane and probably will for the rest of the year – although 2023 could present a different story.

There are a number of factors that continue to buoy aircraft prices. Demand remains strong and both individual and corporate would-be buyers have the cash reserves to pay for their purchases, sparked in part by the \$6 trillion in Covid relief stimulus that the United States

government poured into the economy in 2020 and 2021. Although Covid-19 continues to present risks as the coronavirus mutates, the widespread introduction of vaccines and the lifting of many travel restrictions around the world has spurred a renewed interest in safe travel, both domestically and internationally.

The Tax Cuts and Jobs Act of 2018 increased first-year accelerated or “bonus” depreciation to 100%, but that law also included step-down provisions that will reduce the amount of depreciation that can be taken in the first year and 2022 is the last year for 100% write-off. Beginning January 1, 2023, buyers can claim only 80% of the depreciation in the first year and it will continue to drop 20% each year thereafter until bonus depreciation is phased out completely in 2027. Aircraft owners can still depreciate the balance of their acquisition in subsequent years, but buyers' awareness that a portion of the first-year depreciation will have to be deferred after December 31, 2022 will likely spark continued demand in the third and fourth quarters of this year.

Another factor that continues to drive demand is the relative paucity of brand-new aircraft available for purchase. Original equipment manufacturers already have a backlog of contracted orders for new airplanes stretching out between 12 and 24 months and OEMs generally have neither the capacity



nor the inclination to expedite new construction, preferring instead to keep their assembly lines operating at a steady but profitable pace. This means that buyers who want a new airplane and don't already have a contracted slot either have to wait for one to two years or look to the pre-owned market for a late-model aircraft instead.

There are reports that dozens of private jets with ties to Russian ownership have been parked in the Middle East since the war in Ukraine began but even if true, it is unlikely that many of them will be coming onto the market any time soon, so don't expect a sudden glut of super-midsized to ultra-long-range aircraft. Governmental sanctions in the United States and elsewhere will make it extremely difficult to buy any of those airplanes and, even if they were to become available, it's unlikely that manufacturers will provide parts or any sort of maintenance service, making these airplanes orphaned outcasts for the foreseeable future. ■

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