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Market for Corporate Jets Goes Into Free-Fall

By [GERALDINE FABRIKANT](#)

Maybe [General Motors](#) should throw in a fleet of Cadillacs.

The automaker is dumping its corporate jets into what some participants say is the worst market they have ever seen.

Just seven months ago, hundreds of mega-millionaires, including [Ralph Lauren](#) and [David Geffen](#), were elbowing one another in the lineup to buy a \$60 million Gulfstream G650, which was not expected to hit runways until 2012.

It did not matter that \$500,000 had to be wired to Gulfstream's account at a Midwest branch of [JPMorgan Chase](#) at exactly 12:01 a.m. on April 15, or that bidders who secured a place in the waiting line could not sell their rights if they changed their minds, according to one bidder.

Some eager moguls even tried to improve their chances of getting a jet quicker by opening accounts at Chase's Midwest office. Among high-ticket status symbols, "me and my brand new jet" was it.

But that was another era — before the [credit crisis](#) and before billions of dollars in corporate and individual wealth were lost.

"The jet market stinks," said Richard Santulli, the chief executive of Netjets, the private jet company owned by [Berkshire Hathaway](#), the holding company led by [Warren E. Buffett](#).

To control costs, companies including [Citigroup](#) and [Time Warner](#) are selling their jets. [Alcatel-Lucent](#) has allowed leases on two jets to expire without renewing them and has put its third jet up for sale.

And the public relations fiasco that engulfed the chief executives of Detroit's automakers when they flew to Washington on company planes to seek a government bailout has underscored how inappropriate such travel can seem in this recession.

General Motors, which leases seven planes, put the majority of them on the market before the government said it must do so as a condition of government assistance. The automaker has also closed its air transportation services unit, which had 49 employees.

"We could not justify an in-house aircraft operation," a [G.M.](#) spokesman, Tom Wilkinson, said. "We are negotiating to transfer the remaining planes to another operator. [Ford](#) too has shut down its flight department."

Jet brokers, who normally have a worldwide clientele, say the market has constricted abroad in recent months as well.

“Our inventory is up dramatically, and demand is way down,” said Josh Messinger, of J. Messinger Corporate Jet Sales, a jet broker. “The decline is particularly pronounced for those who bought more recently because prices had soared so much.”

“I spent a week in Dubai, and the front page of the paper there had articles every day about their economy having issues due to real estate issues,” he said.

Mr. Santulli said that the Russians had been big buyers of jets.

“But the fall of the Russian stock market has had a huge impact,” he said. “The Indian stock market stinks, and the dollar has gotten stronger, which hurts airplane sales.”

Because jets are priced in dollars, they become more expensive for foreigners as the dollar gets stronger.

Among jets, the large-cabin, long-range segment of the market is suffering the most, said Bill Quinn, director of aircraft sales and acquisitions at Cerretani Aviation, based in Boulder, Colo. That includes planes from Gulfstream, [Bombardier](#) and Falcon.

Carrying costs are high. A Gulfstream G550 costs about \$47 million. Though expenses can vary by state, one mogul’s business manager estimated that annual costs run about \$1.3 million, including \$500,000 for property tax and \$400,000 for pilots and stewards. Typical operating costs are more than \$2,000 an hour in the air, he said.

The corporate side of the business is particularly vulnerable because of public scrutiny. “They are not going to do employee layoffs and keep the jets,” said Mary Hevener, a tax adviser who specializes in [executive compensation](#) at Morgan Lewis & Bockius.

Besides, Congress stripped away the deductibility of personal travel for executives in 2004 by allowing companies to deduct from taxes only the rough amount of a first-class ticket, far less than private jet travel costs.

Corporate chiefs concerned about public scrutiny are more inclined to look for alternatives than to return to the airlines. Some are examining whether they should take delivery of planes already ordered. One company had been looking to upgrade its two planes. “Now they are weighing whether or not to buy new planes or keep what they have,” Mr. Quinn said.

Some are downsizing. “Some of these guys just move the deck chairs around,” he said. “They get rid of the big planes and go to fractional ownership, or they go to charter, or they come back into the marketplace with a leased plane,” he said.

But every part of the private jet industry has been affected. Netjets lets people buy a fractional ownership in planes, and it sells Marquis jet cards that give customers access to the fleet in 25-hour increments. Those businesses, too, are seeing a slowdown.

“People have lost a lot of money, and are careful about how they spend it,” Mr. Santulli said.

“I have never seen it like this,” said Mike Silvestri, the chief executive of Flight Options, which sells shares in jets as well as plans that cover a fixed number of hours a year of private jet use. “Customers are just not flying as much.” Some customers are stretching out the hours bought for a single year over a longer period.

Flight Options has laid off 134 people, including 104 pilots, and hopes it will be able to bring them back.

Mr. Santulli said that the jet market usually picks up three months after the stock market has reached a bottom. There is no indication of an uptick yet.

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