The pre-owned helicopter market has been under strain from economic pressures and the dramatic fall in the oil price. With the added issue of a shelf life on civil rotorcraft of a certain age, is there any hope for an imminent recovery? **By Gerard Cowan**

The market for second-hand helicopters is going through a tough period, across almost the entire spectrum of sizes and roles. There are a number of reasons for this, but one stands out in terms of both its direct and indirect effects – the dramatic fall in oil prices.

A glut of oil has flooded the world market in recent times. The US has become a major producer thanks to technological advances that have allowed access to vast supplies of shale oil, while Iran has re-entered the market in force following the end of years of nuclear-related sanctions in January.

**Lowest levels**

In early February, crude oil fell to just above $26 a barrel, its lowest level for almost 13 years, although in mid-March there was a slight recovery to more than $40. However, this is still below the average of recent years.

This has had a natural impact on specific parts of the market, particularly the drop in demand from big operators buying large numbers of heavy helicopters for offshore work, according to the HeliValue$ Blue Book.

The realisation that low oil prices will likely persist longer than expected and with many top firms coming out with predictions of oil prices dropping as low as $20 a barrel, it has operators making
steep cutbacks, ‘the firm stated in a recent market comment.
‘Many operators have already parked some of their large offshore aircraft and have been selling older inventory, not on contract.’

HeliValue president Sharon Desfor told RH that there is a huge supply of helicopters in the market at the moment. Normally around 6-9% of the global helicopter fleet is available for sale at any one time, she explained, however the number currently is 11-12%.

‘There’s not quite twice as many on the market as usual, but there’s a lot,’ she said. ‘Heavy helicopters are being delivered because they got ordered during the last couple of years, but a lot of them are sitting on the ground. So things have been a little ugly lately.’

The fall in the price of oil affects the entire market, and not only the helicopters that are aimed at the offshore business.

‘The price of used helicopters has always been distinctly related to the price of oil. It’s not that the majority of helicopters work in offshore oil support, but as an industry the majority of the demand [and] revenues come from offshore oil support. So when oil prices go down, the whole market starts to sink,’ explained Desfor.

**The rise and fall**

This appears the case even if some other market segments start to soak up some of the demand.

‘Industry has always acted very much like a unit,’ she added. ‘Prices rise and fall together. There will be some sectors that are a little more resilient. Right now, emergency medical helicopters are a little more resilient than the oil helicopters. And yet, when they go on the market, they’re impacted by the lower price of the oil helicopters... a prudent buyer would never pay more for something than he could get a substantially similar asset for.’

However, commercial helicopter operations were not always a big market driver. According to the Teal Group’s World Rotorcraft Overview, published in August 2015, between 1998 and 2005 the civil helicopter market was the second smallest segment in aviation, just ahead of the trainer aircraft market. Deliveries of new turbine-powered civil rotorcraft in this period averaged about $2 billion annually, with ‘few signs of any growth’, the report states.

Between 2005 and 2008, the industry transformed. In 2006 alone, deliveries of new aircraft hit 602 and totaled $4 billion. This rose again in each of the following two years, with 2008 seeing 906 deliveries valued at $6.4 billion, according to the Teal Group.

There were numerous factors for this – high energy prices chief among them, as well as the growth in demand from the public sector, including EMS. Additionally, there had been a boost from corporate demand (although this has taken a particular hit lately) as well as buyers in emerging markets.

Despite these figures covering just the new helicopter market, they are illustrative of the growth of the sector as a whole.

**Hard hitters**

The economic crash of 2008 hit the civil helicopter sector hard, with the Teal Group stating that deliveries fell by 13.6% in value between 2008 and 2012. However, the overall story remained the same, with

**SECOND-HAND SALES**

Owner/pilots and light utility operators are still seeking to renew small fleets of lighter types. (Photo: Bell Helicopter)
demand for civil helicopters remaining at higher levels than in previous eras, even at the nadir of the recession.

‘Since then, there have been ups and downs, but there has basically been no sustainable growth,’ the report adds. ‘Still, the low point of a cyclical downturn induced by the worst economic disaster since World War II was higher than any year seen in this market before 2007.’

The worst period for the second-hand helicopter market was in 2008 during the financial crisis and the recession that followed, said Huxley Cowen, who runs HC Aviation, a UK-based helicopter specialist.

Cowen has different aspects to his business. As well as operating and managing helicopters, a large part of his work is taken up with buying and selling helicopters on behalf of his clients. He said the market is now at its toughest point for eight years, with older helicopters particularly difficult to move on.

‘I think that trying to sell an older second-hand helicopter at the moment is very difficult,’ he said. ‘There aren’t that many buyers around and the ones that are around are flooded with choice. There’s a lot of aircraft on the market, and prices are going downwards pretty rapidly.’

Wider impact
Cowen’s focus is the corporate and VIP market. However, while he does not sell aircraft into the oil and gas sector, he has certainly been affected by it.

‘Obviously the oil price has had a major effect on one sector of the market, but it does impact on other sectors as well. The offshore market is not something that I deal with at all, but I think that softening in the whole economic outlook for the country does affect people’s optimism and confidence,’ he said.

The problem, unsurprisingly, is one of price. A helicopter that is more than 15 years old – perhaps even more than ten years old – is ‘getting quite difficult to sell’, he explained. It can be done if an owner is willing to lower their demands, but this is easier said than done.

‘You can sell it if you come down enough in price, but it’s very difficult... to persuade the owners that the helicopter they bought for, let’s say, €4 million ($4.6 million) two or three years ago is now worth half that,’ said Cowen.

‘They just find it very difficult to accept... possibly because a lot of people still remember the heydays of the mid-noughties when helicopters were actually going up in value over time, which I don’t think has ever happened before and I doubt it will ever happen again.’

Regarding the issue of selling older models of rotorcraft, he added: ‘I’m a bit worried that there’s going to be a lot of helicopters that are just parted out because nobody’s going to buy them.’

Some positives
Still, he said he was not overly pessimistic about the market, saying that while things had gone downhill over the last 18 months, it was ‘not at all like 2008’. The rise of the leasing companies has been a big

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element of the civil helicopter market in the last five or six years, and could also be one of the factors contributing to the oversupply of helicopters.

Lessors have represented a significant source of demand for rotorcraft over the past half-decade, buying up large numbers of aircraft, particularly on the heavy helicopter side.

They in turn leased their helicopters to the fleet operators, who were able to sell off their excess old machines, allowing ‘instant fleet replenishment’, Desfor explained.

Additionally, the lessors also provided a sale and leaseback service, which also freed up capital to allow the operator ‘to buy another helicopter, refurbish one in their fleet or purchase some other piece of capital equipment.’

‘Is there more supply on the used market than there might have been if the operating lessors had never come into being? Probably,’ Desfor said. ‘They enabled a massive fleet replenishment on a global basis, and provided the massive capital outlay for it. We had a clump of replaced helicopters hit the resale market, instead of the stream we would traditionally have seen.’

**One of many**

However, it would be overdoing things to attribute too much responsibility for the global oversupply of helicopters to the lessors, added Desfor. ‘It’s only one of the many factors in today’s market condition. After all, out of roughly 40,000 civil helicopters in the world, only about 1.5% are owned by the... leasing companies. That’s enough to alter market perception and gain media attention, but not enough to move the helicopter economy all by itself.’

Indeed, the lessors could provide opportunities for some of the specialist companies involved in buying and selling helicopters, according to Avinco founder and CEO François Gautier.

The lessors have largely focused on heavy helicopters until this point, he said, while companies like Avinco have concentrated on lighter aircraft. Gautier argued that should the lessors need to sell their helicopters, companies like Avinco could prove useful.

‘But now they will have to sell those assets at the end of the lease, so we will see them in the market. They will be a player like anybody else, and they will probably need our support as well because... we have the marketing team to move those assets.’

Gautier said that the lessors were likely to seek diversification of their holdings due to the fall in the oil price. However, even then there could be opportunities for firms such as his.

‘Compared to commercial aircraft, where these big lessors have a true commercial team and can manage their portfolio alone, I think they will need support from people like us,’ he said.

‘It will be too expensive for them to have a team to market any type of equipment anywhere in the world – that was not their business model. They wanted to concentrate on the big equipment for a certain type of customer. So I think they will need to work with people like us.’

**Other factors**

The price of oil is not the only global economic factor weighing on the market, as...
it is highly sensitive to general economic performance, particularly at the VIP end.

There has also been much economic trauma over the past year, from lingering concerns over Europe to a slowdown in emerging markets, particularly Brazil and China.

‘In the past, there was always somewhere that would be buying helicopters, whether it was Brazil because they were expanding, or China, or Russia, or whatever,’ said Cowen. ‘But now the only country where there seems to be a lot going on is still the USA, and everywhere else is probably contracting, [although] Africa is expanding a bit.’

‘It used to be the case that there was always somewhere that you could rely on that would be soaking up helicopters from some sector of the market. That just doesn’t seem to be the case at the moment.’

**Return to tradition**

Some players are actually focusing on the traditional, Western markets, rather than the emerging ones. Avinco, for example, is planning to open a subsidiary in the US later this year.

‘We believe it will continue to be the dominant market,’ Gautier explained. ‘I think people realise that the emerging markets like China, Brazil, India, Russia – they are not ready yet to absorb a lot of equipment.’

He also pointed to new sub-sectors in Europe, particularly related to renewable energy.

‘I think we need to concentrate on the developed market where there is activity, there are new players. There are new markets... we have these wind farms [in Europe]. That’s a new market and it will be a very active one – we sold three helicopters last year to these kinds of operators.’

News stories focusing on recessions and economic downturns across the globe also have an impact on the attitude of potential buyers, who are unlikely to enter the market when the mood music is so negative. This could be the case even if the particular buyer has not been directly affected.

For example, Desfor said that the downturn in emerging markets would not mean a huge amount in terms of sales, but would affect the confidence of buyers.

‘Like with the stock market and the financial markets, people are worried about it, and when people worry they start to become more conservative,’ she said. ‘And as they become more conservative, there’s less money available in those markets and there are fewer deals happening.

‘So right now it’s driven by perception rather than reality. But perception always has a strong impact on any kind of commodity, and in a lot of ways helicopters act as commodities.’

This is particularly the case at the high end of the market. A VIP customer will cancel their order of a helicopter – or not place it in the first place – long before they turn their attention to other expenses.

‘I am in the luxury end of the market, and anything that’s luxury is the first
one to feel the cold winds of economic gloom, and we’re the last out of any recession,’ said Cowen. ‘I think people are definitely pulling in their horns a bit now. Having said that, there are still a lot of people with a lot of money, and they are buying, but they’re mostly buying new or very close to new.’

Corporate shifts
There is some movement on the corporate side, according to Desfor. However, a particular problem here is that some helicopters outfitted for a particular customer are almost impossible to adapt for other uses, she explained.

‘In the used corporate segment, there are some sales, but with the scrutiny of the market, the public looking at public companies and how they spend their money, it’s getting more and more difficult for them to be able to support the use of a corporate helicopter,’ she said.

‘So there are a lot of those on the market, and the problem is a lot of them have been so heavily modified when they were configured that they would be outrageously expensive to reconfigure into an [EMS] or a utility or an offshore helicopter.’

Part of the problem is that rotorcraft are generally acquired for a specific mission, explained Gautier. Avinco is also involved in the commercial fixed-wing aircraft market, and this operates in a very different way, he explained.

‘People will only buy or lease a helicopter for [a] specific mission, and if this mission disappears, then the need for this helicopter disappears … For commercial aircraft it’s much easier in a way because if you have an A320 or 330, you offer it to all the airlines and the guy who has a requirement for a 330 will call you and say okay, I’m interested, and is [willing] to negotiate.

‘Our job is much more complex, because you need to figure out when and where this [helicopter] will be required for a specific mission.’

Sub-market differences
Still, it would be wrong to paint with too broad a brush when describing the second-hand market. Some segments are doing better than others, with certain helicopters standing out in particular, according to Emmanuel Dupuy, head of the helicopter division at Avpro, an aircraft sales and acquisition specialist.

He said the busiest market for the company over the past year has been EMS, with the Airbus EC135 proving relatively popular. However, in the market in general, he said that the star performer was the single-engine segment, particularly the AS350 Squirrel and the Bell 407.

‘That segment is almost in a world of its own because its fuelled by owner/operators and then the light utility operators, and these guys, they’re renewing their fleet constantly... Of course the market is affected pricewise by international economic conditions, but there’s still a lot of liquidity in the market.’

As an example, Dupuy said that within the single-engine markets 30 to 50 transactions can be expected per year.

He explained that some second-hand civil helicopters had now become so inexpensive that it was only a matter of time before buyers began to move in again: ‘It’s very exciting and at some point some of the buyers are going to pick up on that, and I think it’s going to get the market moving. It’s going to create liquidity in the market.’

Cowen also highlighted the Squirrel as a type that was bucking the general trend. ‘The single Squirrel market is actually one of the few parts of the market which I think is doing OK still – I think because they have so many uses… it’s used from police, ambulance, to load lifting to VIP to anything you can think of. It’s a very adaptable helicopter and its relatively cheap to operate.’

Age discrimination
However, even these aircraft can become difficult to sell as they age. Cowen said that he has a 2014 variant of the Squirrel, for which he receives about ten or 12 enquiries a week, but could not remember when anyone expressed interest in his 2001 version.

‘I think it’s a two-part market… The new [rotorcraft] aren’t relatively cheap, but I think if you’ve got the money, that’s what you would want to have. I think the people who are happy to buy the older helicopters, there are fewer of them around.’