

# Market Confusion

**L**ately, I have been reading differing reports about the used aircraft market. In one magazine alone there is an article that says asking prices are firming, and within a few pages there is an article that says asking prices are going down. Some reports show inventory levels rising while others show inventory levels shrinking.

During December, both VREF and Bluebook will put out their Winter Editions to report valuation changes, thereby adding two more voices to the conversation. There are so many market indicators, but which ones should the buyers and sellers be watching? Within this article, I would like to address some of those indicators so buyers and sellers do not miss the right ones - and as a consequence, the opportunity for buying and selling.

First, let's talk about 'asking prices': The source of the asking price input is a 'Free in-Pay out' service. This means that anyone who can verify that they have an aircraft for sale can have their aircraft or listing added to the service at no cost. Brokers and dealers use this excellent resource in a paid subscription service, thus the phrase 'free in and pay out'.

'Free in-Pay out' is a great tool for brokers and dealers who can have access to that information, but here is the problem: One such service reported recently that asking prices were still going down, but in reality most sellers do not have asking prices, instead inviting interested parties to "make offer". Consequently there are a limited number of sellers that even report their asking prices to these services - and they alone cannot be true indicators.

The real indicator is the price that airplanes are actually selling for - and in our industry this information is hard to accurately acquire. It is certainly not readily given to the "Free in-Pay out" services.

These numbers are often only told between brokers with established relationships and with a quid pro quo understanding. So when asking prices are lowered, it often reflects the sellers who are adjusting asking prices to capture the reality of the market - not a true snapshot of what the markets are actually doing. It simply shows that the sellers making the

adjustments are choosing to actively get in the game!

To gain an insightful understanding of whether asking prices are trending down, one would really have to analyze each offering and make a judgment about the starting place of the asking price. Was it a realistic asking price that is being lowered in expectation of a lower sale price, or was the seller simply lowering an asking price that was far too high for the market in the first place?

Inventory levels can also be a confusing measure. Alone, they cannot demonstrate an increase in real supply or a diminishing level of inventory. Sellers list their aircraft for various reasons, and not all of these are to sell the aircraft. Often times the listing is for optics. In fact, sometimes the aircraft that are listed with high asking prices are also the aircraft that get removed from the market.

Services that track inventory levels do not report on the reasons the levels drop or increase - they just report on the total number of aircraft for sale. There is a much more important indicator to watch, and that is actual sales in each category and how those sales contribute to the inventory level adjustments.

In reality, 'Free in-Pay out' services do track transactions, and they do a great job with the limited information to define the transaction. They show retail transactions; they identify lease transactions; and they show new delivery transactions to name just a few of the transaction categories. Unfortunately, however, they do not always connect the inventory level discussion with the transaction discussion - and this disconnect can create confusion as to the reason levels are changing.

So how can you take so many reporting tools and make sense out of them as a buyer or seller?

If you are a buyer, the timing should be centered around need: Once the value proposition of buying elevates to a place where not utilizing Business Aviation is a hindrance to company growth, then it is time to explore the opportunities available. As a seller, once the decision to sell the aircraft is made, the plan should be formulated to understand the current market conditions, price the aircraft accordingly and market the aircraft aggressively.

One thing that is true about today's market: it is getting better, based on increased transactions - but prices in most categories are still soft and not firming. There are also fewer buyers than pre-downturn.



How should these facts direct the seller? Today, sellers must be good listeners. Certainty of a sale being completed is as important as price. Be open to buyers and their specific needs. Buyers' timelines may be longer than in years past, often due to lenders' protracted processes which adds significantly to start-finish timing. What used to take a week can now easily take four-six weeks.

Conversely, as a buyer, be sensitive to the need of the seller to have certainty in their transaction planning.

In essence, this is a great time to buy, and for a seller there are transactions taking place. I used to liken declining markets to a high school dance: Buyers were on one side of the gymnasium and sellers were on the other and no one was really dancing. Today transactions are taking place - there really is a dance.

If, as a buyer, you think waiting will net a better purchase price, all you may really miss are the best airplanes and be left with something other than the best!

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