

The Differences In A Downturn

Last month I wrote about how to detect a changing market. As usual it's about supply, demand, and increased days on the market, factors that are easily recognizable and still allow all participants to continue to find buying and selling opportunities with only slight shifts in strategy. Then the article reflected the accurate data points that one should use to anticipate and work with change.

Having said all that, I wanted to try to draw some parallels between this upcoming market shift and shifts gone by. The precursors to the shift all seem similar - some financial market meltdown. In 2000 it was the Dot-Com calamity, followed immediately by 9/11.

In fact, I Googled the Dow from 2000, and on March 7th of that year there was a startlingly similar headline to what we're seeing now. "A surprise profit warning from one of Wall Street's big blue chips prompted investors to dump so-called old economy stocks Tuesday, pushing the Dow down by nearly 375 points." The article went on to describe the NASDAQ flirting with, but not reaching, the 5,000 mark! Honestly, I had blanked out the huge fall of the stock market in all of its sectors during that time. Imagine a NASDAQ at 5,000 and all of that technology money whisked away. With those losses went the aircraft market momentum.

Sounds catastrophic and there was no way to minimize or speak lightly about the real losses suffered by many. The effect on our aviation market was significant. In every segment, prices went down, and in some segments the decreases were very significant. In fact, manufacturer's backlogs all but disappeared. So what would be different this time around? What might create some floor for losses in the aviation segment? Globalization! It's not, by the way, that I feel this is some sort of panacea. It is just the reality of this market versus any in our history. Let's take a look at the impact and the outcome.

It is never easy to buy into what could look like a declining market. No one wants to leave money on the table. Why buy now when waiting might yield you a better price?

We are hearing those and other similar sentiments every day in our office, and sellers are equally as vocal as buyers. "There is no way that I am going to sell my plane at a loss." "There is no way that I am going to take less than I owe." "There is no way I can afford to sell at that price." So now we have shaped the feelings on both sides. It really all sounds the same, but something is different.

As I mentioned above, the difference will be the global market that exists today that did not exist just five years ago. Will it solve all ills and keep prices high and firm? No. Could it soften the freefall of prices that we have seen in past downturns. Yes and no. This will depend on the segment of the market into which your aircraft falls.

As I've mentioned many times in past articles about the segmentation that exists as a result of this world expansion for aviation, let me remind you where the appetites are. First and foremost, emerging markets like Asia, Russia, the Middle East, Africa, and Eastern Europe all want new, or as a poor second, like-new aircraft. This period in our short aviation history has the manufacturers taking orders and delivering new aircraft to all of these markets just named. In fact, now upwards of 60-70% of the orders taken are not from United States buyers. These backlogs, depending on the manufacturer, represent deliveries for the next 3-5 years. Never before have we experienced this book of orders.

I mentioned, in the last downturn that many, if not most, manufacturers had aircraft sitting on their ramps ready to be striped and delivered, and production had been turned way down, if not off. This current backlog, even if adjusted by canceled orders by 20%, leaves a sustainable, survivable future for the manufacturers and, in fact, will still leave them with annual growth.

The like-new aircraft, those that are no older than five years, and with no more than 2,000 hours, will also continue to be sought-after and their values propped up by this International explosion. Premiums may be shaved to more realistic amounts but I do not believe, given the numbers of the new aircraft being delivered annually and the available

like-new aircraft that fall right behind, that they will be sold at anything that resembles deep discounts.

So as a buyer lurking for a deal, be sure you have the right expectation so that you do not miss a deal. It will not be 50 cents on the dollar! There is no rational reasoning, even in irrational times, for prices of this segment to drop in those areas. Find a seller who is respectful of the changing economy and is prepared to take a lower number than a recent transaction netted and work closely with them. If you are a real buyer who needs the plane, not just someone that is buying bargains with no real need for the asset, you may walk away with a better deal than has been available.

Where the market may not be so kind will be with the older, less globally compliant aircraft. The future of aircraft such as those that are out of production, are not fuel efficient, require significant investment in order to meet the regulatory requirements, and that have been flirting with noise issues, will rest squarely and solely on our U.S. economy.

My best advice here is this: If you no longer have the need for the aircraft and selling is the right answer, get into the market now and get in very pro-actively and aggressively. Be a smart listener when approached by a buyer. Giving the buyers a reason to sit back waiting for worse economic conditions will only create the very prophecy that is driving the buyers today.

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