

The Trickle Down Effect

Last month I wrote about the rapidly changing dynamics of our aircraft market, declared it to be a buyer's market, and discussed all of the unrealized loss of value that is hiding under the surface of our environment.

In recent months, since there have been so few buyers, sellers have not yet had even the chance to sell their planes at any price. These are very strange times indeed. Our market is down and the prospect of any type of quick recovery to high sales volume or increasing prices is not likely for some time into the future. But there's no need to repeat what is now the obvious.

I would like to take a more positive angle in this month's article and describe a scenario that occurred when my company did sell a plane this past month, creating what I'll describe as a trickledown effect of a completed deal. We had listed a super mid-size jet and had come out with the listing at an asking price that was in line with other pre-market shift asking prices, not really acknowledging the current changing market forces. But then we lowered the price and in an effort to track this progression I want to fill in the asking price matriculation.

On September 30th, we listed the plane, a 2006 super mid-size jet with 900 hours, at \$22,900,000. There were several newly delivered aircraft asking \$25,000,000 and our asking price seemed to create the correct differentiation between new and two-year-old 900 hour aircraft. We stayed at that price for about thirty days, fending no phone calls. Being drawn down by the few new ones that were on the market that lowered their asking prices from \$25,000,000 to \$22,900,000, we then lowered our ask to \$20,900,000 in order to maintain the differentiation.

After a couple of weeks we had received no phone calls and my client and I decided to remove the asking price and just put "Make Offer". Still no calls!

My client called, frustrated, and said to just sell the plane. He said he'd even take \$16,500,000! And with that price, we sold it in one day! Obviously we had found the sweet

spot, the right price. Yet even at the right price there is no surplus of buyers. But without the price that a buyer feels good about, nothing happens. So what does this all have to do with a trickledown effect? Simple. While we are all trying to figure out the right price, then finally get to it to demonstrate a willing and market aware seller, the business of our business is not getting done and our industry, not just buying and selling, comes to a standstill.

We did not make many friends when we lowered the price of the super mid-size jet to \$16,500,000. We had to defend the action against those that said we were ruining the market, although I might say that most of our fellow aircraft sales professionals congratulated us on finally putting out a sales price that was recognized by buyers as correct.

What is the moral to this story? What does this story have to do with trickle down? Simple. It means that two brokers made a sales commission, a maintenance shop booked a pre-buy inspection, two aviation attorneys worked to prepare and negotiate a purchase contract, a lender booked a sale, an insurance company wrote a policy, two pilots

were employed, and fuel - which was not being sold to an aircraft that was not flying - will now be sold again to this aircraft. The business of the business started once again and all of this trickled down from a sale.

So ultimately the price of aircraft will seek the level that works for the buyer. No amount of wishing things were different will make them different. Our focus as industry participants should be on getting our industry back in gear. Most of us reading this article either earn our livings in this industry or own and operate aircraft and all of us reading this article are impacted by this industry and its health.

Prices will come back in due time but history has shown us these recoveries are not always quick. The last price downturn of 2000 lasted well into 2004, but that was really just about price recovery and there is no reason to expect that the business of the business has to be so slow to recover as well. In fact, it begins to recover one deal at a time.

Think about the impact that each transaction has on the positive recovery of our industry. Think about what each transaction does for employment. Think about how we each can build that path to recovery. This is a time to rekindle relationships with the internal players in our industry, and to bring vitality back into the industry. The strength of the market with respect to sales prices is out of our control. The trickledown effect of a transaction is not.

> Jay Mesinger is the CEO of J. Mesinger Corporate Jet Sales, Inc. He is on the NBAA Board of Directors and is Vice Chairman of the AMAC. Additionally, he served on the Duncan Aviation Customer Advisory Board for 2 terms, is a member of MEBAA, EBAA & is associated with IBAC. More information visit www.jetsales.com ■



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