

# Pardon Me...

## Would you care to dance... again?

**I**t always looks the same. First we get reports of alarming economic news and then the stock market weakens. Next we see the leading economic indicators slipping and then unemployment starts to increase. What happens next? You guessed it—the aircraft industry starts to slow. Utilization falls off, inventories of available aircraft rise and sales begin to cool off. Some days it feels like the market is standing still.

I've likened this phenomenon to a high school dance in the past - with girls on one side of the room and boys on the other. There are curious glances from across the gymnasium, but no one seems willing to cross the line at center court. Finally, after what seems like hours, some brave boy or frustrated girl crosses over to the other side and slowly the others follow. Then a few couples start to dance, followed by others, and finally there's a crowded dance floor that comes to life.

I don't mean to oversimplify the process of a market redefining itself and coming back to life, but there are some similarities. Think about it: Inventories of available aircraft rise as more owners decide to reduce expenses or people back out of purchases while they "wait and see," and a downward pressure is felt on prices. Sellers take the position that they'll continue to wait, hoping that the market eventually comes back, while buyers begin to say, "It's going to get worse—maybe even much worse—I'll just wait until prices hit bottom."

Get the picture? Boys on one side, girls on the other, and no one dancing - just curious glances! But remember what happens next? One brave soul makes a move, and before long, the dance floor is full.

So eventually some sellers say, "It might get better, but I can't wait. I need to sell now." A few buyers begin to say, "Sure prices might go lower, but we can benefit from a new acquisition immediately. Let's go ahead and buy." So a few brave souls go back to the center and make the best deals they can.

There are even some advantages to a market that is just starting to heat back up, but is still far from warm. Competitive pricing can

create cash flow for the seller and a motivating deal for the buyer so the buyer is able to say, "I made a very good purchase, even in what appears to be a declining market." The seller can say, "Sure, we took less than we initially had hoped, but we sold the aircraft." That begins the redefinition of the market and the beginning of a new dance.

Even if we aren't at the warming up stage quite yet, we are probably pretty close. And the cycle will repeat itself over the next few years, just as it has for decades. As always, an experienced and knowledgeable broker or dealer is key to maximizing the benefit of buying or selling at any time, but especially in transitional markets like today's... it looks like the dance floor is starting to fill up!

*(The above is an excerpt from an article printed in April 2001!)*

As I sat down to write this month, I remembered this past article. In fact, lately as clients and prospects have called to discuss the market, I find myself quite often likening the current market to the old high school dance. Then I went back, found the article and found it hauntingly relevant.

There is not a day that goes by now that my office does not get four to five calls from buyers with the same question: "When do you buy in a down market?" The answer differs depending on who, and why they are asking. Is the person just sitting back and looking for an opportunity that is unlike anything seen in recent years? Is that person hoping to boast that they stole a plane for the sake of the moment? If that's the case, today may not be the day to buy. In fact, I am hoping that that day never comes! I hope that prices do not drop to record lows and that our industry does not suffer an incurable disease of value and price. But if you are in the market to buy a plane to fit a need and you just want to be sure that you do not overpay in a declining period, today may be your day.

Over the last five months the market has been affected by the economic pressures of the world and, specifically, the US economy. The credit crunch, the housing market crash and the escalating price of fuel have all impacted not only aircraft sales, but also uti-

lization of the aircraft currently in service. Slower sales and lower utilization all contribute to the lower sales prices of pre-owned aircraft and even a weakening of the premiums paid for near term new aircraft. We can already see a 10 -12% reduction in pricing of many of the categories of aircraft. Will it go lower? It may.

So how does one possibly buy today? Sitting back and waiting for more discounts will not get you active in a market. You need to get active and make offers. If you need an aircraft for service today but are afraid to act thinking that prices may go down further, make offers that anticipate where you would be comfortable buying today. After all, if you are making qualified offers that have reasonable terms without unreasonable contingencies, you are a real commodity.

Take the price of the planes today, anticipate in your offer where you would be comfortable based on your fears and make the offer. After all, if you don't ask someone to dance, you will never dance. You might just find that partner that is as serious about selling as you are about buying, and that seller may well be ready to acknowledge the economic conditions and also be able to see what might be a continuance of the same.

That seller may be just the person who would accept your concerns about a continuance of the weakening environment and share some of that remaining decline with you in order to get the sale made.

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