

# Clarity

**O**ften as I prepare to write these monthly articles the topics come to me in just one word. This last month the word 'Clarity' kept coming up in my daily conversations. To be sure I was using the right word, I looked up the definition. Here is what I found and why I have used the word lately:

Clar-i-ty: clearness or lucidity as to perception or understanding; freedom from indistinctness or ambiguity.

There is the word, now here is the why: No one can dispute that the last 15 months have been anything but clear with respect to our industry. No one yet knows the effects this global economic turmoil will leave behind when it does end. We certainly have no real understanding or perception of the situation in its entirety. Sure we might speculate or even pontificate, but we are doing it by the seat of our pants.

There has never been a market change whose drivers are as multi-faceted as the ones we find ourselves with now. But like all downturns, regardless of the drivers, at some point the outcome - the bottom - becomes clear.

In last month's article I spoke of the pricing floor, and asked the questions: Are we close? Might we be there? As the days have gone by, I realized I have more clarity as to the shape of our 'new normal'. It is different from the past, as we have had to deal with some very stubborn facts. We as an industry have had to make some very difficult choices and they are not over yet. In fact this clarity does not necessarily bring good news; it just gives us a much clearer view of where the aviation market is today.

Each month I receive well written industry statistical reports addressing the changes since the prior month. These reports indicate that the prices of aircraft continue to drop, with new aircraft deliveries still lagging significantly from prior years, while inventory levels of used aircraft are starting to stabilize.

The term 'churn' means, with regard to inventory levels, the net level after change. This change in available inventory can come from aircraft that are sold which reduce the levels, as well as change due to inventory

being added to the market. It can look like the levels are remaining static or are stabilizing, given that the month starting numbers are similar to the ending numbers. However, this may not be an accurate perception, and I think that clarity is emerging from what is taking place in between.

Recently, I testified in court about the valuation of a certain plane in today's declining market. The struggle both sides had was that they had so few data points to help them identify the correct selling price of the aircraft. However, as I prepared my presentation, I found the graphical evidence for the change in pricing. I went from a sense of having very few data points, to realizing that there were actually many data points I could use to define the significant change in pricing that occurred during the last 12 to 18 months.

First, I looked at the available inventory during the period beginning September 2008, and watched each aircraft in this specific category up until today, noticing several telling milestones. In fact, several of the aircraft that were for sale in September were still for sale today. Several had of course sold, and others had been withdrawn from the market. However, each event was preceded by a very clear pattern, and as I looked at the available aircraft on a continuum, the pattern got clearer.

The aircraft that sold could be identified by those owners who began to "get" the market forces. I could see the aircrafts' asking prices tracking downward, and as the sellers'

expectations matched the market realities, a sale occurred. I also saw aircraft being withdrawn from the available "for sale" market, because there seemed to be a clarity among that group of sellers that perceived the down market as real, and that it was going to be quite a while before any significant recovery.

In addition, in the absence of this clarity, there were sellers who were reluctant to lower their asking prices or target sale price, thinking that the market would rebound sooner and the prices they had hoped to get for their aircraft would become a reality. However, these aircraft were still on the market, and in some cases, were there the longest.

It is my perception that the withdrawn aircraft that had been crowding our market had not really been for sale, due to the seller's inability, or lack of desire to sell their plane in the target range of the 'new normal'. This understanding now provides a far clearer view of our real market with respect to asking and selling prices.

So, when the reporting groups speak of stability in available inventory due to month beginning and month ending numbers looking relatively the same, the real clarity is somewhere in the middle. New aircraft are coming to the market daily, replacing the sold aircraft whose sellers matched the market realities, as well as replacing the aircraft that had been withdrawn by those sellers who realized they would not get the higher prices of yesterday.

The churn is leaving what might look like static levels, when in reality it is creating tremendous clarity of our market.

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