Market Segmentation: It has changed

I remember about 10 years ago when the publishers of Aircraft Bluebook called me to ask about how they should deal with the valuation of aircraft that have higher time due to their use in fractional programs. Imagine that concept! Newer planes with twice the hours. What to do? How to differentiate these aircraft from the rest of the fleet? It was a fair question. Should they have a separate column? Should there be an entire new section of the book?

That was the most complicated question they had when trying to set up segmentation in the pre-owned market. I do not mean to oversimplify the very difficult job they do. They have to set up many other factors that denote value differences, such as engine programs and modifications, but even though it was complicated, the segmentation was simpler. There was pre-owned and then there was a segment of pre-owned that was higher time due to a new use pattern.

Let's jump ahead to today. Hold on and get out a scorecard. Things have changed. In the good old days, one hardly ever really compared new to pre-owned when thinking about the valuations. Not anymore.

Today, new is a significant segment to be valued. Remember when you compared new aircraft by just mentioning them in passing? There were those that bought new, and then there was everyone else. Remember when you considered new, yet you knew it never really impacted the value of pre-owned? After all, new was something we in the pre-owned resale business knew existed, but never really bumped into. That isn't the case anymore, so let's look at the complexity of the segmentation in today's market.

We have the new. Most manufacturers' backlogs are now exceeding 24 months. I just ordered a Global XLS and it is 33 months until delivery! So guess what? A new segment was just created - the 'near-term new delivery'. That's right, the new aircraft from the secondary market with a delivery of six months or less. I am seeing 20 percent premiums paid for these aircraft that are priced in the $30,000,000 to $50,000,000 range.

So we have the new, the new near-term deliveries, and now let's discuss the 'like-new'. These are the aircraft that are filling up most of the wanted ads in publications. Even the manufacturers are advertising for these planes. As the backlog grows, buyers are pressing the manufacturers for interim lift. This is putting huge demand and pricing increases on the like new aircraft, aircraft that are only one to three years old and have less than 1,500 hours. This is not a momentary demand. This demand is sustainable. This demand is worldwide. This demand is real.

Where does it end as one works their way down the food chain?

The next real segment that now exists is 'the traditional pre-owned', that segment that is, of course, enjoying some of the benefits of globalization in our market. It still enjoys full manufacturer's and lenders' respect and support, and in most cases the products that are in the traditional pre-owned arena are still current model aircraft. They are the three to 15 year old aircraft that have, for the most part, less than 5,000 hours and current technology.

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This is still a very robust segment with several really good years of predictable value left. These aircraft are enjoying a boost in value at a rate that owners would be proud to brag about.

What comes next, however, is not as pretty and nowhere near as predictable - 'the aging airframe'. This segment is struggling to maintain value for many reasons. This is the 20-plus-year-old segment of our fleet. Inefficient engines, older technology, and airframes that do not enjoy the manufacturer's full support make up this segment. Typically, we always used to feel there would be a "life after us" by sending them south.

Old Jetstars, Lear 20 series and even the older Hawkers and Falcons were sure to find homes in third-world countries. But that's not a sure bet any longer. Today that segment struggles to have selling times that are shorter than one year, at prices that resemble anything above salvage. Sure, the really low time for the year with great pedigree might fetch a little shorter selling cycle and higher price, but not much.

Complexity abounds. Buyers, sellers, lenders and insurance providers view the segmentation. Believe me, it is no less confusing on the top end with 20% premiums as it is on the bottom with salvage value prices.

So what is the take-away from this article? This market for the foreseeable future is complex and must be approached with open eyes. Priorities have changed and expectations are different. Sitting on the fence in either extreme could cost you more than being in play.

In fact, I actually heard a manufacturer contemplating a desire to sell aircraft that buyers had, for one reason or the other, turned back into the manufacturer prior to delivery for a premium, thereby capturing the secondary near-term delivery market rather than losing those dollars to people selling their near term position themselves.

This is all leaving buyers, especially first time buyers, scratching their heads. They are concerned and frankly, often put off by this market. I wish that I had a take-away that came from a crystal ball. None of us do. We are all tagging along for the ride. Hold on, this market ain't over yet.

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