Aviation Leadership Roundtable™

Giving A Name To Our Current Market

Do you ever experience a set of circumstances and then try to give them a collective name? Sometimes the descriptive name just rolls off of your tongue. Sometimes it takes a while to label them. I am having a bit of a problem labeling our current market. Let me describe what I am seeing, and then maybe you can help me with a name.

The good news is I am not going to use words like "declining", "falling" or "terrible". Those were the words we have all used for the past 15 months. This new environment is much better.

Don't get me wrong: when you start with no activity, a little bit does make it much better. We are not experiencing a complete resurgence; however, we are experiencing activity that feels great. So I ask myself; 'Why the difficulty in naming this market?' Maybe there is no one name that captures all of the segments.

Let's start at the bottom and work our way up. If you look at the small jet category, then segment it again by age; you will find a huge amount of real inventory to choose from, and at great pricing. These are aircraft that are 10 to 15 years old, the Citation Vs, Ultras, Lears and Beechjets, etc. This segment like all segments is very price sensitive. The opportunities to buy in this market have never been better, as sellers are in line with buyers with respect to pricing expectations. No seller is screaming "bottom feeders", and buyers are feeling good about the pricing floor. Transactions are starting to increase.

This segment is attracting buyers who have a clear need for an aircraft, and in the absence of broader based lending, can find the pricing here to be inviting. It is in this category that many of the older fractional planes are coming back into the mainstream. This section represents a good capital cost, and a good operational cost model to a buyer.

The next segment is the older large-body aircraft that, although significantly down in purchase cost, still represents a bigger plane cost of operation. The planes in this category include Challengers, Gulfstream IIIs and IVs, etc.

I think the renewed activity may be slower to return to this segment due to the still much higher operational costs and the considerable inventory still left to choose from. Aircraft in this area seem to be searching for the pricing bottom. I think it is close; however, the buyers have not yet declared the "sweet spot".

The funny thing is, in the smaller jet category that we spoke of at the beginning of this article, the sweet spot is very clear, and the attraction to this segment is without question.

Now we get to the most interesting and possibly thinnest market segment; the five-year or newer large-body aircraft. These include the Gulfstream 550, Global 5000 and XRS. For a myriad of reasons, this segment once seemed like the most flooded. High net worth individuals, large corporations, foreign owners and manufacturers were all introducing inventory to this segment at the same time. As a buyer, it seemed like there was a huge selection of planes to choose from.

Prices are impacted like all aircraft, and as we have said in many recent articles, the prices are down as much as 30-40% from their 2007 highs.

This slim market may be due to several factors: The manufacturers have reduced production so near-term positions have all but dried up. Many people who had placed these aircraft on the market have found their need or appetite to sell waning, and have since taken them off the market. Some sellers who had hoped their plane would sell at a price that was probably more representative of times past, have since realized that the opportunistic sale will not occur. And the more desperate seller has already sold their plane.

Let's take a closer look at the large-body aircraft market. In most of these newer large-body markets that I have outlined, there are really only a small handful of real ready sellers. The large-body aircraft is the first market segment in the recovery that seems to have a fairly equal number of buyers to sellers. It almost seems as though this market has the feeling of being like that of the days prior to our great economic decline. Nonetheless, let me caution the sellers in this market: My description of this market having an equal number of buyers to sellers should not give anyone the idea that this would be the perfect time to raise prices. Clearly the real aircraft for sale now will sell for higher prices than the ones that desperate sellers sold theirs for, thereby giving the appearance of higher pricing. I still caution against any real upward movement at this fragile time in the return to activity.

Just last month the Federal Reserve met, and declared that they would keep interest rates at their current historic lows. They sensed that now, if raised even slightly, all good things that are occurring would end. I believe the same is true with aircraft prices. If sellers mistook this current activity as a time to raise prices, buyers would go away.

Yes, I believe our economy is doing better, and yes, I believe that we have some significant work to do as an economy to fully recover. Jobs must return and consumer credit must stabilize in the many difficult days ahead. However, having said that, it is the confidence that we are at the bottom that has allowed a few people to come back into our world and buy aircraft. Let's not rock the boat.

So how would you label this market? Why not just start by calling it a "Market" again. Not up, not down… just breathing again. The patient is going to live!

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