

Finding A Needle In The Haystack

For the last couple of months I have reported a slight up-tick in activity. Along with this renewal has come a leveling of inventory in many categories, a slowing in the dip in asking prices, and many needed indicators all intersecting at once. I wanted to discuss this intersection of events and comment on what might be the outcome, as it relates to buyers and sellers finally meeting in the middle.

For the last 15 months, most of the activity that occurred was the random sales made by distressed or time-sensitive sellers. The “need to sell”, transactions that defied pricing logic and enticed even the most unconfident, yet capable buyer off of the fence and into action. Also during this period prices dropped dramatically, and in many cases as much as 50 to 60 percent from their 2007 highs.

Markets seemed flooded with inventory. As much as 14 to 20 percent of any given fleet was listed for sale. In fact, in many categories months went by without even a sale. Only desperate situations could entice the buyers to return. The external market forces in our economy were just too strong to allow even the most amazing buys to occur.

During this collision of market forces, many of my clients were content to remain on the sidelines as they were still not convinced there was a signal indicating stability. They felt that the market was not at bottom, and that waiting would serve their interests rather than re-entering into this fragile market. Now in hindsight, it is interesting to see what opportunities were captured, and which opportunities were missed by waiting until now to re-enter the market.

If you create a time-line starting in September of 2008, you will see the phenomenon of a changing market. Last September with credit facilities drying up, Lehman Brothers failing and world markets reeling, many people who were in the middle of acquisitions put the brakes on their deals, feeling that the prices that were contracted were not going to be correct even by closing

time some 30 to 45 days later. The market was changing so rapidly that it became the norm for transactions to fall apart rather than to close.

Lenders were pulling back on aircraft loans and manufacturers were struggling to keep their order books in-tact, and our market from stopping. The only deals completed during the next six months were those that buyers sensed were due to desperate situations. Believe me, even if a situation was desperate, the number of sellers who could even begin to entertain a sale then were small, due to the remaining pay off required from them to the lender. Rumors of crazy low-sale prices abounded and our market continued to scratch its collective head as to when, and what the outcome of all this might be.

Where were the real deals? Was there a needle in the haystack? If you had the ability to buy during the next period, January 2009 through April or May 2009, this would have been the optimal time to have approached the manufacturers and find the needle you were looking for. Let me tell you why:

The manufacturers had limited, but available inventory in most of their categories. Between moving some later delivery customers forward and dramatically reducing production, the manufacturers had very few near-term deliveries to deal with, and these sales represented great buys for often below the manufacturer’s retail selling price. Those problems have now been dealt with, and the manufacturers have shed their immediate delivery aircraft and are back to as much as a one-year wait.

Now where are the deals? Today the best deals are being made in the pre-owned market. Sellers have finally come to grips with the current market reality. Inventory is leveling out in great part due to the many sellers who had been hoping for higher pricing, but have since removed their planes, providing much more clarity for the remaining offerings. So now on a much more consistent basis, buyers are finding the deals they have been waiting for, and sellers are acknowledging the sweet spot in pricing, as identified by

the activity that is finally happening.

In review, we have discussed the needle in the haystack based on three past dates along the market correction time-line:

- First, was the time between September 2008 through March 2009 when we saw the desperate sales that occurred due to the global economic downturn.
- Second, was during the January through May 2009 time-frame when you could find the best opportunities with the manufacturers.
- And third, is the now current, less frenzied period created by the sellers coming to grips with the perceived bottom of the market, and buyers having a renewed confidence in this pricing sweet spot.

So, we have just one more critical needle to find in this market haystack; buying the best plane for a low-price, rather than buying the cheap plane for a cheap price.

As I used to say in the height of the market frenzy when there were 30 buyers for just one plane: Just finding a plane and getting to it first was the needle. Today with 30 planes and one buyer, people often mistake low price as the needle in the haystack. The needle is really the plane with the most options, best history, and great times as related to the particular fleet, highest Mod and Service Bulletin status.

There has been a pay-off for those buyers waiting for this pricing sweet spot to immerge and it is not just price. It is also choice. Make the right one!

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