

Is Our Market Inflated Or Efficient?

I had an interesting call recently from a client who hired us to buy a Gulfstream IVSP. He was afraid the market we're in is inflated and feels that perhaps he is overpaying by stepping in at this time. His fear stemmed from seeing prices of like-new GIV-SPs remaining firm sale after sale, and he's worried about an impending market correction or downright drop in demand.

After we discussed the pricing of the past several years, however, and reviewed the reports from Honeywell as well as UBS, I began to see a different market than the one he described. Upon reading about deliveries of new aircraft, and backlogs from manufacturers as well as current inventories of stocking dealers, I began to see the market as less of an inflated, seller's market and more of an efficient or balanced market. I have said for some time now that we are in a healthy market where supply and demand seem evenly matched, and I would say the same thing about the GIV-SP market.

I discussed this market balance in last month's column, using as an example the guy in the circus that spins the plates, and keeps them spinning quickly and balanced. My reference there was one of many components that work in sync to create balance in the market. In retrospect, I think that an even better word to describe our current and foreseeable market is efficient.

Never before in my selling history have we had the sheer explosion of an International market like we do now. Even the last recovery did not enjoy the expanded market universe that we have today. In fact, that emerging or exploding International market is what is driving the longest sustained manufacturers' backlog. Frankly, this expanded market of ours is a great thing, even better than a good thing!

Of course, at the end of the day it is about what you pay for the asset. No one should overpay or miss-buy, but the more important factor is the residual value of the asset - what it will be worth at some predictable future date with additional hours on it from your use. In historical terms, taking the market highs and lows into consideration, most

aircraft over their lifetime can depreciate as much as 3% per year.

Today, however, unless we suffer a worldwide economic catastrophe, the International expansion may take many of the lows out of values that up until now were created by a predominantly single focused market environment. The United States was the market. If we were up, the market was up, if we were down or our economy slowed even slightly, it was down. Today the expanded market should keep the market balanced longer, with greater efficiency. This efficiency will probably reduce the 3% annual depreciation of newer aircraft down to 1.5 - 2% per year.

So when is the best time to "get in" to the market and when is it best to stand back and wait? That is an age-old question with no real scientific answer. First and foremost, get

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in when you feel that the value of business aviation serves the personal or business concerns of the participants. When you feel that the financial return for being in front of your customers quicker, out ahead of the competition and with greater frequency merits the cost, get in. When you feel that you are no longer served by the airlines and the toughening commercial environment and you are in a financial position to avoid these hassles and frustrations, get in.

If you feel that you can afford to wait to service the client or stay ahead of the competition until the market weakens, you may miss a business opportunity, and a weak aviation market many times signals a weak overall business environment. If you are waiting for lower prices, look at the portion of the price that you feel is inflated. I would bet that the difference between the price you

may have felt comfortable jumping into before, and today's prices, are not as great a difference as you may think.

It may be more perception than reality because the lower supply of

good available aircraft may be creating this sense of inflated prices. While it is true that prices are up, I assure you they are not up enough to miss the business opportunity that a well run, skillfully dispatched business tool like an aircraft can bring to the business owner or company that is buying the aircraft.

If the manufacturers start to experience a slowing in orders, they will no doubt offer slight discounts to qualified buyers to keep the backlog up. However they choose to keep the backlog up, that continued backlog will keep efficient pressure on the like-new pre-owned aircraft. That like-new segment will keep the pressure on the slightly older group of aircraft for sale. I do not mean to insinuate that we will never have a slowing market with greater supply in our future, but I do feel very good about the efficient manner with which our market will respond.

So back to the original question: is it an inflated market or an efficient market? My answer would be efficient. It's a market whose lower supply pricing is also adding to the residual value of the aircraft. That is a balance that should keep the investment safe and earning its keep. So get in! Wave hello to your competition as you are leaving with the client's order. The competition is probably arriving commercial on the 2:20 flight and I bet it arrives late and their luggage is lost.

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