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A Look Ahead To 2014.

Weaving together a pattern for the year ahead.

As 2013 concludes, Jay Mesinger briefs Board Members on the year ahead, and the prospect for changes in the market for business aircraft.

Traditionally for the December issue of *Business Aviation and the Boardroom* I have tied together several data points from the previous 12 months to weave a blanket that covers the next year. Looking at experiences and lessons-learned helps to shape what we think the future will bring. Hopefully 2014 will be the beginning to a more vibrant aviation market. Please don't stop reading just yet, I see something new on the horizon rather than a repeat of the past...

Over the last few months, market activity seems solidly on the rise. One measure we use at our company is the increase in first-time buyers surfacing. When we see more new prospects, we believe that real growth is happening. Assessing the facts

and adding "guesstimates" of our own, I will 'build the four corners of the blanket' that we feel will cover the major characteristics of next year.

CORNER IDENTITY

The first corner is 'need'. There has been a solid business case for years in the 'need' for companies to use Business Aviation. My favorite saying bears repeating, "Using a tool like a business aircraft to get out ahead of your competition and in front of your client is solid reasoning, and proves itself time and again."

Real business is done face-to-face, not over the internet or telephone. Realization of this fact requires an easing of Business Aviation's optic phenomenon that still lingers, including the

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HOW VIBRANT WILL THE MARKET BE IN 2014 ?

What the Boardroom needs to know about Business Aviation

bad press and conversations that plagued the industry starting in 2009. Today I am happy to say that more people are losing that stigma and regaining their confidence in being known as the company that uses business aircraft to grow revenues and make business happen.

The second corner to this new blanket is the idea that *'supply of business aircraft remains high and prices remain low'*. I wish I could say that prices are rising and that people are willing to pay more for business aircraft, but that is not today's reality. In fact, if sellers were to misread the market and raise prices, they would immediately stop today's increased activity.

Potential buyers are showing renewed interest because of the values reflected by today's attractive pricing; a market dynamic that could be lost if sellers become over-confident. There is too much supply globally to come close to the place where demand will outpace supply and cause prices to rise. Such a market might not occur for 12-18 months.

Before prices will rise they will have to stop going down. We have seen 25 consecutive quarters of reporting that prices have trended lower. There must be a flattening of prices for several quarters before we see any price increase that would be sustainable.

The third corner of our blanket is shaped by the cost of *'regulatory compliance'*. New technologies for global navigation and air traffic control are being mandated in one degree or another depending on the operational environment of the aircraft. Safety technology also is a consideration.

European requirements will impact every brand of aircraft that will be flown internationally starting in 2014. The cost of compliance is dramatic and will be another factor in segmenting older aircraft whose owners will be forced to make serious financial decisions about upgrading their aircraft. Be well-informed about the cost of outfitting an aircraft for international operations before committing to a purchase.

The fourth corner relates to *'financing'* the purchase of a business aircraft. Although bankers say money is available, obtaining funds in 2014 will still be problematic. The vast majority of banks and lending institutions remain reluctant to provide loans for older aircraft.

This lack of financing will require buyers to purchase with cash or rely on non-aircraft credit facilities. Lack of asset-based financing, which was relatively commonplace before 2008, will keep many interested parties out of the market. Potential buyers in 2014 may not be able to use



available lines of credit to buy aircraft and also have the credit or cash needed to run their company. While I see confidence being restored slowly, caution is still the economic position for most prudent business owners and stockholders.

SUMMARY

Let's spread this blanket over 2014 and see what we have woven. In general, the market will be more active with more buyers—particularly first-time buyers. That characteristic means real growth for our industry. Growth means more aviation-related jobs will be created; more aviation-related services will be sold; and the relationship between supply and demand will begin to shift.

Due to the regulatory changes in International flying there will be real and large costs associated with continued operations. Increase in activity will be tied directly to consumer and business confidence, so growth in 2014 will be measured. But growth is growth, and I am happy to report that 2014 should be a "G" year.

Take it slow, watch it carefully, make sure the blanket does not come unraveled, and have a Happy and Prosperous New Year!

Do you have any questions or opinions on the above topic? Get them answered/published in *World Aircraft Sales Magazine*. Email feedback to: Jack@avbuyer.com

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