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Separating Fact from Fiction

Jay Mesinger takes a realistic view of today's market for pre-owned business aircraft to separate what is real from what is wishful thinking in the search for recovery.

A respected client and aircraft owner who is very perceptive about business, recently called to caution that our industry is trying to “talk” a floor into the market. He went on to say that every time he picks up a trade publication he sees one article or quote after the other about how much better things are, how solid the recovery is, and how the bottom of the market is finally here. Yet the daily email blasts about aircraft for sale that he receives emphasize a lower asking price, often drastically lower.

Sometimes the blasts have statements like

“must sell” or “we will be the next to sell, so we are open to all offers”. These are very inconsistent messages about the health and wellbeing of the aircraft market, he observed, adding that in the absence of real pricing stability our industry is trying to create a market floor by excessive and unrealistic jawboning.

In my opinion, my client is right. As I wrote recently, flat market prices are the sign of the new “up”. If we could just get two-to-three consecutive quarters of pricing that did not drop, we would be on the verge of a pricing recovery. We are not there yet.

I do believe we are getting close, however—closer than we have been in years. I am encouraged by the activity and the increased numbers of first-time buyers coming back into the market. That characteristic is real, and it will allow us to get back to a sustainable future. It will not send prices ricocheting back to pre-downturn pricing, but it will stop the freefall. Annual depreciation will still occur, but it should be a predictable and manageable amount. Following are some facts (and fiction) about the current market...

- Fact:** We are enjoying a higher level of sales transactions in our fleet globally.
- Fiction:** Prices are rising, days on the market are shortening, and inventories are shrinking in all categories of business aircraft.
- Fact:** Those aircraft owners who have increased their asking prices are experiencing more days on the market, not fewer.
- Fact:** Increased levels of transactions are really the beginning of a recovery! ➤



What the Boardroom needs to know about Business Aviation



SIGNS OF RECOVERY

Several new phenomena will occur as we emerge from the wilderness. For several years, in large part due to an absence of lending, an aircraft's age has created a segmentation that is more defined and drastic than in prior recoveries. Going forward we will see not just age but also regulatory compliancy being a factor.

To be suitable for international operations, business aircraft will be required to have avionics systems that comply with FANS 1/A, CPDLC, ADS-B Out, and TCAS 7.1 software upgrades. This situation will create a segment of haves and have-nots, not dissimilar to aircraft that lacked guaranteed maintenance programs for engines.

Not only will regulatory compliance create a pricing difference, there will also be a time-on-the-market difference. Adding regulatory items can be complex and could, depending on the make of the aircraft, cause one to completely upgrade the entire cockpit.

Fact: Good things are starting to happen in our market. People are actually turning their talk into action. Along with buying will come modernization and cosmetic improvements, which will also increase the health of facilities servicing the Business Aviation community. More flight and

maintenance personnel will be employed, increasing activity to pre-downturn levels of business.

WHAT'S NEXT?

What is the best thing for the buyer? Take out your fleet planning paperwork and review it again. Start to interview aircraft professionals at every level. Begin to think about assembling that team you have been considering. It is time to turn dreams into action. I assure you, we are getting strong again.

Do not, however, let that strength blind you to the realities of the current and future market. As a seller, be realistic about pricing strategies. As a buyer, look for opportunities before they begin to fade. Be sensitive to markets with higher levels of inventories. If you are positioned correctly both as a buyer and a seller, you will not go wrong.

Now is a great time to prepare for the inevitable—a healthy marketplace. At the next board meeting, add the word business aircraft to the agenda.

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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