

The Brokers' View of What's New

Recoiveries, like downturns, can be very cathartic and cleansing, if for no other reason than the fact they make everyone stop at the same time and look around, scratch their heads and pay attention. That's not to say we were not all paying attention before the downturn, we were just focused on different things.

Pre-2007 we were predicting, "This run can't go on forever. Prices can't keep going up." We were right about that! Prices not only stopped going up, but they began to tumble. Our industry basically stopped doing business and tempers flared... I remember lowering the price of a Challenger 300 I was selling and feeling like the most hated broker in the world. In reality all I was doing was pricing the aircraft to sell in what was the beginning of a market meltdown. I always maintained that if I, alone, was strong enough to change the dynamics of a market I would have kept prices high. The reality, however, is that no one aircraft price change effected the market. The market effect was so complex that as brokers, all we could do was hold on for the ride!

Now, as we sense a recovery in the air, I thought it might be interesting for my fellow brokers and sales professionals, as well as our customers to see the change through our eyes.

A discussion of what's new must include and start with the price of aircraft. Today the price of aircraft are down between fifty and seventy percent from the heady days of 2007. With supply greater than ever, the first thing that got stripped away from the price of airplanes was the five to twenty percent premiums being paid and financed as a part of the aircraft value. The practice of lenders financing 100% of what one paid, rather than an amount representing the published marketable value of an aircraft (less ten to twenty percent) put buyers and lenders underwater on the loan overnight.

This contributed greatly to the next thing that has changed in this recovery, the reality that there is not a robust lending component

propping it up. Never in my 40 years within this industry have I experienced a recovery that did not have this critical component.

One other thing I am watching change on the low-end of our fleet is more and more sales occurring with no (or a greatly reduced) pre-buy work scope. Buyers are coming in with cash wanting an even greater discount, expecting to read the logs, borescope the engines and fly away. In my opinion that's risky business, but nevertheless seems to be a business decision both buyer and seller choose to make.

Another significant market change is the reduction of new aircraft compared with pre-owned aircraft that are selling. Today's numbers have completely shifted since 2007. The pre-owned aircraft today are selling in far greater numbers than new. In addition, the traditional replacement timeline for many corporations has shifted from trading airplanes when the warranty expires or the depreciable life of the aircraft has passed, to investing in modernization and upgrades and keeping their aircraft for longer.

The method by which commissions are calculated seems to be shifting too. What was a more traditional sliding percentage fee is now more often being replaced as a flat fee. It would be very hard to say to a client, "I know your aircraft has gone down in value by fifty to seventy percent so I need to double my percentage fee to make up the loss to me." As brokers, none of our costs have gone down, and in fact airline tickets, hotels and rental cars have all gone up - so the flat-fee method seems more palatable to buyers and sellers.

What has not changed is the need to market oneself, and get your listings out to the public. In fact I think publications like this are doing a better job than ever of catching the eyes of buyers and sellers.

Complementary websites like AvBuyer.com are really helping the buyer and seller source aircraft on the market, and aid the brokerage community as well.

No matter how good these publications and websites are, though, there is still a real

need for our segment of professionals within the market. We are also enjoying the acceptance of the aircraft manufacturers like never before. As selling gets more competitive, the manufacturer consultant and broker



have an even more important role in helping our customers choose between new or pre-owned, and if new is the right choice, then which one? This brings our communities even closer together, and they are more aligned today than ever.

So recovery's is in the air - transactions are on the up-tick. Prices are flattening in many segments and first-time buyers are coming back in record numbers. I believe this trend will prove sustainable, but don't mistake these positive trends as a reason to raise prices. I do not see that ever happening in broad strokes, but possibly in small increments, and in some segments.

As I said within these pages a few months ago, 'Flat' will be the new 'Up'. I am sure I have missed a few changes so I always welcome hearing from my fellow sales professionals and consultants, and of course the owners and operators.

➤ Jay Mesinger is the CEO and Founder of Mesinger Jet Sales. Jay serves on the Jet Aviation Customer and Airbus Corporate Jets Business Aviation Advisory Boards (BAAB). Jay was a Member of the Board of the National Business Aviation Association (NBAA), and the Chairman of the Associate Member Advisory Council (AMAC). If you would like to join in on conversations relating to trends in Business Aviation, share your comments on Jay's blog www.jetsales.com/blog, Twitter and LinkedIn. For more information visit www.jetsales.com.

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