

Churn Rate: What Will Be Left?

In our industry we usually associate the “churn rate” with fractional ownership providers (e.g. for every new share sold, what is the net effect to the provider’s total shares sold?). If one shareholder is getting out for every one share sold, the churn rate would be even, whereas if two shares are sold for every one share given up there would be a positive rate by one. Conversely, if two owners are getting out for every one sold there would be a negative rate by one.

I think we should begin to watch the churn rate for aircraft ownership, however. I am concerned about the owners of some of the very old, less compliant aircraft selling those aircraft at the end of their useful life and then not replacing them, instead choosing to end their ownership cycle.

Will enough new people enter our ownership cycle to keep the rate of aircraft positive? We as an industry have never faced the reality of an entire segment of our fleet universe becoming too old to continue to invest in, leaving the aircraft in this category to literally be sold for scrap.

Let’s take some of the old Lear Jets, Hawkers and even the older Citations or Sabreliners as examples. Those airplanes that are coming up for major engine restoration in conjunction with what may be a major airframe maintenance event also face new regulatory compliance hurdles to overcome in order to be eligible for continued operation internationally, and even domestically by 2020 when ADS-B Out capabilities will be a requirement. By then, the tipping point for return on investment may have passed.

Aircraft owners in the past may have been faced with selling for less than they had hoped, but never with the possibility of selling the aircraft by the pound. Investing hundreds of thousands of dollars for engine overhauls will simply not be a reality going forward for these owners who used to be able to go to their lender and finance such modifications or enhancements. This added debt to the aircraft is no longer available to them - so what next?

With virtually nothing to apply to the next aircraft purchase from the current sale, these owners may well opt out of ownership going forward, opting instead to revert to charter or jet cards. To keep our industry from shrinking we will need to cultivate a new group of owners; buyers who will come into the market and be ready to buy newer, more compliant aircraft. They will need to buy aircraft where continued investment will be justified, and in fact will be considered prudent to create even greater value in the aircraft they own.

We as industry leaders need to continue to support the high-value of business aircraft ownership. The discussion about getting out ahead of your competition and getting in front of your customer is vital. Traveling safely and securely in business aircraft needs to continue. These will need to be the discussions we as industry insiders have with our customers, over and over again.

The aircraft market is already showing some new signs of life. As I mentioned in last month’s column, ‘Flat’ will be the new ‘Up’ with respect to price recovery. Along with price recovery will come more confidence from buyers. Already we are seeing in our office that the better aircraft in many categories that have been on the market are selling, leaving less choice to a prospective buyer. What happens next will be the beginning of a price differentiation between the lower-time, better equipped airplanes as compared to the higher-time, less equipped ones.

Within the Boardroom section of this publication I wrote about the series of new regulatory requirements that are upon us as aircraft owners and operators, including ADS-B Out, CPDLC/Link 2000+, FANS 1/A, TCAS II 7.1, and on... and on... These and other modifications will cost real dollars. I am excited to report that I believe investment in these items will be considered ‘value-adds’, and will be supported by return on investment consideration. As a matter of fact, this may be the first time in six years that investment in airplanes will be considered ‘adding to the price of the

aircraft’ and not just fulfilling an expectation from buyers with no return on investment to the seller.

So we have a lot to think about and we have a lot of participation in the outcome of our industry’s growth.



- We may have no impact on the value of the very old aircraft, but we do have the ability to keep the population of our industry strong and vital;
- We can promote the health and well-being of the ownership equation;
- We can help our owners and prospects focus on the reality of the value of ownership; and
- We can continue to guide buyers and sellers through successful transactions and transitions.

I am banking on the churn rate for aircraft ownership and fleet size to be (and remain) in the ‘positive’ category. I am banking on this because I come to work each day to affect that outcome. My sons come to the office each day enthusiastic about the future of our industry, as well as their own futures within it. As I see many of my fellow aviation professionals at different industry events and I am sensing their enthusiasm too. It’s been many years since I heard as much positive chatter - and it really feels great!

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