

THE PLAYING FIELD IS LEVELING AGAIN

A Shift Towards Sellers



In the past year I have written a number of articles dedicated to the buyer. Increased inventory levels, lower prices, interest rates at all time lows are all rich reasons to buy. Some would have classified our

market as a "Buyer's Market".

It is now time to pay some attention to the Sellers. These are the lonely group of people who have been the recipients of what seems to have been all the bad news of the last two years. These sellers have stood by and watched dreams fade and at the very least watched their aircraft be worth considerably less.

Listen up! I feel a change coming! It will not look like a ground swell and the prices are not going to soar. They might not really even go up for a while, but I believe they are going to stop going down. As I stated last month, the mood and tone of the NBAA convention was upbeat and positive. Even if this is classified as truth in advance, the truth of the matter is, that activity is up and people are coming back to the market. Let's discuss how to be positioned as a seller in what will soon be an "equal balanced market".

In a buyer's market everything is priced cheap: the great ones, the bad ones and just the OK ones. In a seller's market, everything is expensive: the great ones, the bad ones and just the OK ones. It is in an equally balanced market that the reality of the individual plane comes into view and benefits begin to count again. I wrote an article a few years ago about added avionics and modifications not having any extra value. In an equally balanced market these upgrades will begin to show through and provide some extra value against the competition. That is the good news.

The reality is several things will need to occur in order to put you as a seller in

the best sales and price position. First of all, this recovery will begin to differentiate the old planes from the new ones. Prices will reflect aging aircraft from the newer, more compliant models. Aircraft that are not in production or manufacturers who are no longer producing such aircraft will find it harder to sell and will need to price accordingly. This will create some changes in the traditional valuation where reporting companies (such as Blue Book or VREF) state prices.

In fact I am sure these companies are struggling to find the balance now as they are trying to figure out valuation distinctions for the fractional planes. These will be coming back on the market with inordinately higher airframe times due to higher utilization when this last crunch hit. The first way to account for this airframe time differentiation is to update across the board what is the annual use rate of all planes.

In the last 10 years utilization of all planes has increased from what was traditionally calculated at approximately 325 hrs per year to what seems more realistic as an average of about 425 to 500 hrs per year. This first step will create a very needed equalization across the whole jet fleet.

The next step will be to separate those aircraft that are older than 25 years. The reality is that older planes will need to have some type of adjustment. When a buyer looks at a group of aircraft for sale he or she will reduce the available fleet size by those older than 25 years. The creation of the aging airframe distinction is not just being driven by buyers, but more importantly it is driven by lenders and insurance agencies as well. Safety, operation and support may not be compromised by age, however, the price surely will.

So, now sellers, let's get ready to be judged on your individual merits. For the first time in years we are going to get to be an individual, not just a number. Things that only made you sell cheaper quicker will make you sell quicker for a more value considered price. This sword will cut both ways.

If you do not have the compliance or add-ons, you may also be hurt by this equally balanced market. The other contributing factor to final price will be the fact that as a market slides down and everything is cheap, the traditional spreads (built into a market by the manufacturers) will have to be injected back into the market. This may look like a continuation of a falling price but it is really the final adjustment to an equally balanced market.

A great example of this was a comparison I made several months ago between a Falcon 50EX and a Falcon 2000, I had for sale. They were both priced the same. This pricing occurred by not standing back and focusing on them individually. I was getting no takers on either one. Then it struck me that there has never been a time in the history of these two models where they were priced the same. Having the same price was confusing and disruptive to the process. I re-priced the Falcon 50EX making it less expensive and creating the spread that was meant to occur. Both sold!

Therefore, as a seller, pay attention to the category that your aircraft fits into. Be sure that you have created the spread that is meant to exist when pricing your plane against others that are traditionally compared together.

This is an exciting time. A market shift will create a more level playing field for all. Don't mistake what I am saying in this article. It is not time to raise prices, it is not time to feel the buying values are gone, but it is time to sell and buy with a focus on the benefits rather than price alone.

Smart shopping and market evaluations are critical. Benefits statements are imperative and patience will continue to be a virtue well rewarded in this process. Pick an aviation professional to partner with and jump in. This period is going to be great for both buyers and sellers.

■ Jay Mesinger is the CEO of J. Mesinger Corporate Jet Sales, Inc. He hosts the Aviation Leadership Roundtable found at www.jetsales.com and is also the Vice Chairman of NARA (National Aircraft Resale Association).