

So, How Well Can You Tread Water?

by Jay Mesinger

The sky isn't falling. The clouds are just a little lower. The ocean isn't really any deeper. It just seems that way. Maybe the waves seem a little larger, but it's an ocean we've all been in before. Our market is redefining itself, but that redefinition is about adjustment, not the overturning of the industry. (After all, prices on nearly all aircraft are still higher than they were just five years ago.) So the real question is: How well can you tread water? Can you wait patiently to let the prices get better as a seller, possibly getting worse before they improve? As a buyer, can you tread a while longer until the very best deal comes along? They don't give Olympic medals for treading water. It just seems too mundane. Yet treading water intelligently may be the key to success in an off market.



It might be helpful to look at this market's driving factors and compare them with conditions a year ago. First there is supply. As in many markets, supply ends up driving price, selling time and choice. According to *TheAviationHub* Trends section (driven by data from AMSTAT), a look at 16 categories of aircraft inventories reveals a 21% increase in available inventory for Q1 2001. Turboprop inventory increased 17.9% in the same period. Over the last two years, available inventories have increased by almost 50%. During the past year, three out of four quarters saw retail sales move downward. While last year ended with a 1.0% gain over 1999—a flat performance—in the first quarter of 2001, retail jet sales were down 7.3%, turboprops down 14%.

What do you do? There is a valuation tool called *The Aviation Asset Manager Portfolio* that is able to keep you informed about the moving target value of your aircraft. The phrase "moving target" isn't meant to imply a radically volatile market. Rather, every hour flown in an aircraft and every day of ownership that passes, bring it closer to another event or usage-based replacement/service. Each aircraft's value needs to be tracked on the basis of its unique and changing upkeep and maintenance requirements—not just marketplace value. When we first introduced *The Aviation Asset Manager Portfolio* five years ago, the market was growing so strong that the perceived need to know the value of an aircraft seemed less important—it always seemed to be worth more than what was paid or owed. Today however, the need to assess your position in a particular aircraft is critical for making business decisions either to reinvest, sell or just keep using it. Even if selling is the farthest thing from your mind, now is the time to begin carefully monitoring your aircraft's real position in the marketplace and in your total asset management strategy. You may be treading water, but do so with knowledge on your side. When you consider expenditures for improvements or maintenance, do so

knowing how that decision will play out financially today and 12-36 months down the road by using *The Aviation Asset Manager Portfolio*.

Once you have the valuation in front of you, the question becomes whether you can sell it at a certain price now, or get more value from the asset through utilization. Remember, replacing an aircraft, even a lower priced one, has a price. Buying and selling are not cheap, and all such costs should be factored in a decision to make a move. I often have clients conclude at the end of this exercise that keeping and operating is the better path. Treading water can be a very smart thing to do.

If you are considering an acquisition, the time to buy is only greater now if price has been the limiting factor. Continue to stick with the mission profile you and your agent in the marketplace have articulated. Sure, a down market means there are more choices in each price category. But be careful. More choice doesn't necessarily mean more good choices. *Caveat emptor* still applies. Do not let price alone drive you. Do the work to assess potential acquisitions carefully. There is always a "cheapest plane" regardless of the market climate, but usually the cheapest represents the same thing every time. There's a reason it's cheapest—a reason you probably don't want to have to live with down the road.

So back to the really important question: Can you tread water? Can you afford the time to make an accurate assessment of market conditions, build a solid plan and execute it even if it means *not* acting now? Those who look back on this period with a smile will be the ones that figured out "how long I can tread water".

On May 23rd, at our monthly *Aviation Leadership Roundtable*, we will be talking live online with several aviation professionals skilled in navigating the seas of change in the marketplace. Please join us. To participate, simply go to www.theaviationhub.com, click into the *Aviation Leadership Roundtable* section and click "Enter Conference". It's free, and will last about 45 minutes. You will be able to exchange ideas live online. The only thing needed is a download of the software, RealPlayer™. It is available free from our site, and takes about twenty minutes to download on a standard dial-up connection, so try to accomplish that in plenty of time before the event. I look forward to seeing you there.

If you would like more information on *The Aviation Asset Manager Portfolio*, visit www.jetsales.com/aamp.

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