

TRENDS...

Can't live with 'em. Can't live without 'em.



It seems like everywhere you look, someone is writing about a trend. Market up, market down. Buyer's market, seller's market. It makes one kind of dizzy just looking at all those lines

crossing. The question is, what trend is really important to us now and in the future? I think the answer is simple, the aging aircraft and their impact to our industry.

About five years ago, a very good friend of mine, Paul Wyatt, from Aircraft Bluebook said to me, "Have you given any thought to how we, as an industry, should value aircraft coming off of fractional use"? What we were saying then, was how should we view aircraft with higher than usual airframe times that are from 1 - 5 years old? Five years ago, that seemed like a critical adjustment everyone was struggling to quantify.

Now, this problem seems to be sorting itself out. The fractional providers are extending the use of the planes in some categories, thereby delaying or stagering the re-entry into the general population. The industry as a whole is recognizing an increased utilization across the board thereby increasing the average hours flown per year on the rest of the fleet. This is narrowing the gap somewhat between fractional aircraft and business-use aircraft outside of the fractional fleet. As it turns out, this particular dilemma is not really going to impact us like we once thought.

However, the aging fleet issue will not go away. It is here to stay and gets worse with age! Here are some alarming statistics. I separated the current "For Sale" aircraft as listed by AMSTAT Corporation, and put them into four categories. Light jet, those jets weighing less than 20,000 lbs., Medium jets, those jets weighing between 20,000 - 40,000 lbs., Large jets, those jets weighing over 40,000 lbs., and Turboprops of all sizes. Then I looked at each category's avail-

able "For Sale" numbers. The light jets currently have 893 units listed for sale. Of those 893 units, 619 or 69% are 20 years or older. Of the Medium jets there are 612 listed for sale and 371 or 61% are 20 years old or older. Of the Large jets, there are 360 listed for sale and of those 220 or 71% are 20 years old or older. Of the turboprops, there are 1,357 listed for sale and of those 963 or 71% are 20 years old or older. So what does this all mean? Let's look at it from several viewpoints.

First, let's look at the fleet on the basis of this current recovery. When we as an industry went through this 10 years ago, the idea of a complete fleet recovery was a given back then. The idea of an aging fleet had not even crept into our collective industry vocabulary. The end of the last 1990 era recovery was boosted in great part by the NASDAQ boom. Tremendous wealth was created and many first time buyers came to the market thrilled to just find supply.

This recovery may not have a boost like the NASDAQ and will have a very different supply of aircraft to be considered. The age of the planes will impact the buyer and leave a far different entry-level supply.

Manufacturer support will also be an issue to deal with. Many of the factories are already scratching their heads and wondering how to sufficiently support such an old fleet. Avionic manufacturers are also having trouble keeping parts and black boxes in adequate supply to keep dispatch reliability at an acceptable level. These support issues will keep pricing pressures intense on this aging segment of the fleet. As I mentioned earlier in this article, as the fleet recovers, certain segments will just continue a downward direction.

Regulatory compliance will also affect the recovery and future prices of this older, aging segment of the fleet. The cost to comply with DRVSM/RVSM and TAWS as well as noise and manufacturer aging airframe inspections may be prohibitive. A glaring example of this is the Gulfstream II. Here is an aircraft that has a resale value that in some cases is not much over \$1,500,000. The cost to comply with RVSM, TAWS and Hush Kits will be higher than the value

of the entire aircraft. The G-II simply will not bear the financial burden of these items. That was just one example and it's not really an extreme one. Citation 500s, 20 series Lears, Sabreliners no category or model is exempt. Even the Citation IIs are starting to see the reality of the age issue. Owners, buyers, sellers, brokers and dealers are all struggling with this reality.

The impact is multi-layered. As the attrition rate of our fleet accelerates, all associated providers will suffer. There will be less fuel sold, less planes in the air, and less inspections carried out at maintenance facilities. This is a trend that is real and happening now.

So now when you look back at the issue of newer planes with higher airframe hours as a past concern, you can quickly see how in reality the fact that fractionals grew so quickly and ordered great amounts of new aircraft were positive. These aircraft will be coming back into our general population, and airframe time will be quickly negated by newer age.

Will there be emerging markets that will embrace these older less compliant aircraft? If so, it will have to emerge with lenders and insurers willing to take the risks and be involved in areas of the world they had previously and traditionally stayed away from. Third world countries that have less stringent requirements for airspace and noise have characteristically been areas where lenders and insurers have not participated.

I wish I had my traditional "good answer", for these problems. I think the answer is 'buy' with the knowledge of the future of the fleet. 'Buy' knowing that today's price paid is more critical than ever. So the very trend that many thought would be causing us the most trouble today, high time newer aircraft, is in fact a part of the solution to our shrinking fleet. The trend on everybody's mind today, an aging fleet, may not end up being a part of a solution tomorrow.

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