

MIXED MESSAGES



As we approach the end of 2002, our industry is flush with signals of its future. These signals are coming from all directions. I would like to focus on the signals that affect both the aircraft professionals as well as the constituency we

serve. First some very exciting news; news that interests us all and provides a very strong light at the end of our tunnel. In September, our industry was treated to one of the best and most invigorating NBAA conventions in recent memory. Attendance was great, exhibitor numbers were up and OEM introductions were the buzz. Almost all of the major manufacturers had news of new, improved and market driven products.

The fanfare was at a fever pitch. Our future and that of the manufacturers seems bright. So get ready for the future, it is going to be wonderful. As I spoke to exhibitors and attendees, the attitudes were very positive. Flight departments were attending looking at new technology and safety products and were overjoyed at the new aircraft introductions. I understand that seminar and tax class attendance was high and conversations all pointed to a continued increase in use. Personally I was so grateful that all of the manufacturers embraced this convention with pre-9/11 vigor. When I attended the scaled down version last December of the NBAA convention, I hoped that the 2002 show would get back to the days of old and sure enough it did! Big exhibits, large turn outs and upbeat dialog.

But what about tomorrow? I mentioned the light at the end of the tunnel but I did not discuss the length of the tunnel. I don't think it is going to be short tunnel. I believe that before we get to a new tomorrow, we must endure and in some cases simply survive today.

I am never one for gloom and doom, but I always try to assess a true and

accurate picture based on facts and 28 years of gut feelings. My gut feeling tells me that we have a long road ahead. The news from the street, as they say, is not good. Major layoffs, production line stoppage and slowdowns are clear indications of the industry's struggle to deal with canceled orders as well as a dramatic decrease of new orders.

Discounts placed on new aircraft have not been as available in seven to eight years. This will give some great opportunities to buyers of new planes. It will also place continued downward pressure on the pre-owned market. I had sensed a new level of confidence among buyers from the first of the year. At that point buyers who had been waiting for what they had felt was a bottom began to come back into the market with a renewed confidence. Although supply was up and continuing to grow, transactions were taking place. Buyers were back and feeling good. Over the last several weeks I have noticed less inquiries and a greater struggle to get the attention of the reduced number of buyers. This of course can be traced to a continued increase in supply, as well as what might be a renewed feeling of a new bottom being defined. I had dinner with a client at the NBAA convention. He summed it up best when he said, "Jay, I was so excited to hear that prices were down, until I realized you meant that about my plane as well."

So what to do with all of these mixed messages? Do you sell, hold, or fold? I think you do what one always should do regardless of the environment. Build the strategy on your specific needs for the short and foreseeable future. For those who have been considering an upgrade, now is definitely the time. For those considering getting out; it will have a cost and that will have to be weighed against the cost of keeping the aircraft. This cost analysis must be weighed using several factors. First, your immediate need to shed expense and debt against the value and what might be both a shortfall as well as any tax recapture. A market that is as inventory rich as this one will make the process more

difficult than ever. One must also look at the ability for the aircraft to recover in a better market. Newer aircraft with no noise or regulatory requirements involving high compliance costs will stand a much better chance of price recovery, thus making short term shared ownership or shared use a viable alternative, while you wait out the market recovery. Older aircraft with high future compliance costs may never recover and only lose more value with time. In those cases, the best choice may be to figure out what price it would take to be the next one sold and be successful in that endeavor. In all cases, if selling is the correct choice, regardless of whether you are stepping up or out, the best strategy will be setting a correct selling price and making sure it's the next one to sell. Do not be a statistic in the market. Get in and out as fast as you can! If you are moving up, I assure you whatever it takes to move out of the current equipment to grab the buying opportunity should be the end game. What you give up in the sale will be handed back to you very positively in the acquisition.

In any case, as always, seek the help of an aircraft professional. They are the ones who spend their days closely watching and talking to others in the market. Build a plan that keeps you moving forward. Moving in the direction of the light. Moving to the end of the tunnel. After 28 years, this is the third time I have seen this market phenomenon. It always ends. It always gets bright.

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