

Tracking Used Jet Values



'V' Not Always for 'Victory'

Jay Mesinger reflects on the shape of today's market for used business jets...



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Recently, I was speaking to a client about the shape of the market. His company is in the energy business, which may be the reason why he often thinks of everything as a commodity where prices rapidly reflect general market conditions and rarely differ within a given product class.

"Don't you agree," asked the client, "that the market is shaped like a 'V' and we are either already on the right side of that 'V' and coming back up, or at least at the bottom of the 'V' and ready to jump back? In other words, will the price of aircraft rebound?"

First I commented that aircraft are really not commodities that have one price one day and the very next might have a different price. Supply and demand do play a huge factor, but two aircraft with

consecutive serial numbers are equal only on the day they were built. From that day forward they have different operating conditions and exposure to wear and tear. They have different standards for maintenance and are owned by very different types of owners in very different parts of the world.

Aircraft are unlike a barrel of oil that one day has a price set by the commodity brokers regardless of where in the world the oil is stored, and the very next day could have a price increase or decrease based upon conditions that have nothing to do with the oil's composition.

Pedigree, mechanical integrity, location and operational methodology play heavily in determining an aircraft's value. I urged my client to regard his aircraft not as a commodity but as an asset that depreciates along a timeline, ▶



creating different residual loss rates as it moves along that line.

Next, I argued that the price of today's business aircraft does not move along a 'V'-shaped path. Rather, it depreciates at a fairly steady rate—today at about seven to ten percent a year, which is four to six percent greater depreciation than we expect in a stronger market. The good news, however, is that the loss rate is fairly constant and predictable, which is better than what the community experienced during the 2008 global economic downturn.

Several years ago I postulated that "flat would be the new up"—prices that did not fall were causes for celebration. I said then that if we could just get a few quarters of flat pricing rather than quarter-after-quarter of downward pricing trends, we could declare a recovery. I was less concerned about the market heading up. I just wanted the decline to stop.

Well, several years later we are seeing a return to quarter-after-quarter of downward trending, with no growth in emerging markets and a sharp decline in oil prices. Hence there is a huge supply of aircraft 'for sale' with respect to the demand. With emerging markets moving from net buyers to net sellers of business aircraft, coupled with the energy-producing companies and the ancillary suppliers not traveling as much internationally due to the slowdown of infrastructure development, we have negative global pressures on our industry.

Back to the 'V'

Go to Vref Publishing or Aircraft Bluebook digest and look at their quarterly graphs for specific make, model and year, or for the overall market pricing trends. Note that you do not see anything close to a 'V'. The graphs labeled as Vref Large Jet Index actually track upward or are slightly flat from the years 1997 to 2001. From that point they track down significantly to 2003, change direction and track slightly upward through 2008, then track down consistently quarter-over-quarter through 2015.

The new edition for Q1 2016 will probably continue that downward tracking. There is no 'V'! There have only been the occasional bright spots that seemed to bottom out or track up very slightly. The CJ line of small jets is a great example.

A historical perspective, as I have addressed in this article, shows continued global economic pressure on our fleet. Almost all sales at this time are occurring in North America. Inventory supplies are rising and prices remain the key factor in selling a jet today. The issues created by the value of oil on our global economy will no doubt be long-lasting.

Even if the price of oil begins to increase, energy-producing countries as well as energy-producing companies will have long memories and will not race back into buying mode. Most importantly, there are buyers, they are in North America and they are price-driven. ■

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