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# *Buying Wisely In An Unstable Market.*

'To buy or not to buy?', that is the question. Noting instability in today's market for business aircraft, Jay Mesinger reflects on the benefits of acquiring the right product now to serve today's business opportunities and to move boldly into the future.

**S**ome sales professionals say we are in the midst of a buyer's market for business aircraft. Others look at prices trending down and ask if there might be a better deal tomorrow. With prices lower than ever in the recorded history of our industry, there is little doubt that the market favors buyers. We cannot say with confidence, however, that prices have bottomed or that clear signs of a rebound are present. Rather, I believe that our present market

for business aircraft is best described as unstable. The challenge for the buyer, therefore, is deciding what parameters apply when evaluating the purchase of a business aircraft in today's unstable and unpredictable market.

### UNIQUE OPPORTUNITIES

Resale prices of business aircraft are not the only factors that are attractive. The price of borrowing has never been lower, and many buyers can

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# What the Boardroom needs to know about Business Aviation

self-fund an acquisition. Many corporations have either the borrowing ability or the ready cash to purchase. Buyers, however, are sensitive to the impact of price instability on the acquired aircraft's residual value; they want to retain as much resale potential in the asset as possible. Such thinking may be the result of times gone by and thus be misleading in today's dynamic business environment.

In past markets it was possible to buy a business aircraft, fly it for a few years and then sell it at - or near - its purchase price. (In fact, there were unique situations in the mid-2000s when an aircraft garnered a higher resale price from buyers that wanted the advantages of Business Aviation without delay.) At the very least you might suffer what had been in the past a traditional depreciation factor of one to three percentage points a year. Any of those three scenarios (retention of purchase price, windfall, or nominal depreciation) would be acceptable to the buyer. Today, though, no one can say with certainty what will happen to residual values.

## SIGNS OF INSTABILITY

The financial crisis that erupted in 2008 had a profound effect on the market for business aircraft. One would have thought that an aircraft purchased in 2010 might increase in resale value over its depressed purchase price, or at the very least might be an even ride. In fact prices continued a slide in every category of aircraft, and in many cases lost as much as 28-35% of value since the false 2010 bottom.

Furthermore, following 2008 the lending community changed drastically. Borrowed money either was not available or was rather cumbersome to obtain, especially for some older aircraft.

In the recent past, if you wanted a pre-owned aircraft that would retain its value based on historical markers you needed to buy a model currently in production but not over 10 years old. In some situations, the better option was purchasing an aircraft that was manufactured within the last five to seven years, and considering resale before it was 10 years old. No longer could you consider the older mainstays of the Business Aviation fleet as safe bets for retaining high resale valuations.

In the words of songwriter Bob Dylan, "Times they are a-changing." Today stock indices are at record highs. Business seems to be recovering. Airlines are curtailing service to smaller markets where growth appears to be emerging—routes where business aircraft really shine. Globalization continues to encourage increased travel internationally—another good arena for Business Aviation. Yet the US economy still has unresolved



issues, such as how business will be affected by sequestration. Considering the countering forces buffeting business, it is understandable that the market for business aircraft is best described as unstable.

Within such instability, however, there lies unique opportunity. You may choose to buy an attractively priced aircraft knowing that the residual value component is somewhat uncertain but you have committed less capital. More significantly, you will have access to excellent transportation that enhances the ability of your company to grow even in a challenging economy.

## PURCHASING FOR THE RIGHT REASONS

Business aircraft are good investments because they enable the best use of employee talent and time. Companies that embrace Business Aviation in one or more of its delivery forms—charter, fractional use, timesharing, or outright ownership—grow faster, reward shareholders with higher returns in dividends and stock appreciation, and garner more accolades for being well-managed than do their counterparts that do not use business aircraft.

A timely purchase of an attractively-priced business aircraft is a corporation's best strategy for dealing with market instability.

Do you have any questions or opinions on the above topic? Get them answered/published in *World Aircraft Sales Magazine*. Email feedback to: [Jack@avbuyer.com](mailto:Jack@avbuyer.com)

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