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Planning For A Recovery:

Using past cycles to measure the present one.

Cycles contain information that Board Members can use in their oversight of corporate involvement with Business Aviation, asserts Jay Mesinger. Here's how...

Boards, and other parties considering allocation of corporate resources for Business Aviation, look for changes in the marketplace that can influence decisions. Knowledgeable observers sense when a recovery is emerging and when it is the time to respond to such change. Thus, I thought it would be interesting to recall past cycles in the business aircraft market that I experienced and observed in my previous contributions to this publication. Of particular relevance were several articles from 2003 and 2005. I chose those years because they memorialized the beginning of the last recovery as well as the fully recovered market we experienced before the turndown post-2008.

Prior to the economic challenges that our nation confronted over the past four years, we had our last major downturn in 1999, precipitated by the Dot-Com bubble as well as the Asian financial crisis. Recovery of our industry from that low started during the first quarter of 2003, and it was raging by the first quarter of 2004. The first signs of the 2003/2004 recovery were easily identified in an increase in transactions. What was less obvious was the fact the best aircraft were getting sold and what remained were the less than perfect aircraft.

During a market downturn there is typically no difference in the price of a great aircraft versus a less-than-great aircraft. They are all cheap. It is only when a market begins to get more balanced that there emerges a differentiation between aircraft based on real attributes like airframe time, cosmetics, damage and extra equipment. This is not to say that, even in a down-market, glaring differences were not singled out by price. Major damage will still be criteria for price considerations. What subtly begins to happen, however, is that the cream gets sold first. Prices are still down but choice gets dramatically reduced. Then as new aircraft begin to come on the market and that market becomes more active, you start to see the price of the better airplanes firm and then inch up. ›

What the Boardroom needs to know about Business Aviation

ADDITIONAL CHANGES

The next phenomenon that occurs in a recovering market is a reduction in the number of aircraft within each segment, so there is less choice in addition to clear delineation in price between the great ones and the mediocre ones.

As the recovery rages, prices begin to move up discernibly. Depending on the segment of aircraft, they might skyrocket. Days on the market for aircraft shorten and choice becomes slim. The designation of the market shifts from a Buyer's market, next, to a more balanced market, and then a Seller's market as we witnessed in the case of the period between 2004 and 2008.

CAPITALIZING ON CHANGE

Planning for a cyclical shift in the market requires focusing on a plan that is built around transition, and timing for that transition. The window of opportunity to buy can shift to a window of opportunity to sell higher. While such a shift may not mitigate the ability to maintain the desired spread between the relinquished aircraft and your replacement aircraft, it may mean that several options emerge.

I would also emphasize that there is no need to fear that this shift will occur overnight. If a dedicated focus is maintained on the market, there should be no surprises.

Let's look at the current recovery that appears to be surfacing and compare it with others that I have seen. I have never experienced a recovery that did not have a very robust lending component. The desire and appetite of lenders has been one of the most important factors in our industry's past recoveries. The lending situation is different this time. Some of my best industry friendships are in the lending community, and every time I make a statement about the lack of lending one of my friends will say, "Jay, we are open for business!"

The difference is not between the lending appetite of past recoveries and now. Rather, now there are considerably fewer lenders, and those that are lending are mostly doing it on a relationship basis.

Another not-so-subtle difference is that lenders are taking a dim view (if not an absolute dislike) of the aging aircraft—those aircraft that will be 15 years or older during the term of their loan. The present Business Aviation fleet is mostly made up of that very age group. In no way will this recovery be as robust as past recoveries unless that situation changes quickly.

This phenomenon means decision makers will have even more time to position themselves, and to plan for a recovery mode.

So there you have it: My tips for identifying an impending recovery. Save these for a later date. I do not see signs of a near-term recovery. I think that for all of 2013 we will see what may even be a continued decline in prices, and a continued wide-open window of opportunity for the airplane buyer.

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

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