

# A 2015 Scorecard

## How Did the Year Rate From a BizAv Perspective?



Decision makers tap the wisdom and experience of advisors they trust. As 2015 concludes, the ruminations of Jay Mesinger provide valuable insight for those considering investments in Business Aviation.



Jay Mesinger is the CEO and Founder of Mesinger Jet Sales. Jay serves on the Jet Aviation Customer and Airbus Corporate Jets Business Aviation Advisory Boards (BAAB). Contact Jay at [jay@jetsales.com](mailto:jay@jetsales.com)

**D**ecember is time to reflect on the preceding year. As I look back on 2015, I recall being troubled 12-or-so months ago by a few signals but at that time I was unsure why. I am still stumped as we look forward to 2016. Furthermore, my puzzlement seems justified.

Last year, at the NBAA Convention in Orlando, my company was representing for sale two brand new zero-time Challenger 350s, one brand new Gulfstream G650 and one soon-to-be delivered Embraer Legacy 500. We were proud of these listings and expected them to 'fly off the shelf'. In fact we had a huge, expensive (and I thought particularly clever) advertising campaign at the Convention that was branded "Why Wait".

The thrust of our message was, with a minimum of 18 month backlogs on the Challengers, the same on the Legacy, and a three-year backlog on the G650, "why wait" for the OEM to provide you with a business aircraft.

I went to each manufacturer's static display in Orlando and watched the lines of prospects each day of the convention, anxious to view each of the respective aircraft. I was sure someone would step off one of those beautiful machines and say, "I don't want to wait". We expected them to call us. Our ads were everywhere, and surely could not be missed. We were disappointed, however.

At the beginning of 2015 as I watched oil prices drop and our dollar strengthen, I said in a speech to an audience of Business Aviation professionals to

“be careful what you wish for”, and I went on to describe the wish list: energy independence, low oil prices and a strong dollar. We received all of those wishes on the same day, and the world shuttered.

Suddenly oil-producing companies and the ancillary firms that relate to oil production and consumption canceled or drastically curtailed 2015 capital expenditures. Orders for new aircraft were put on hold or not even considered. This seemingly sudden shift made our industry look at itself in a way that we hoped after 2007 we would never see again.

### Pre-2000 Roots

Another huge factor affecting 2015 valuations was the realization that demand for Business Aviation was going back to its pre-2000 roots. North America was returning to the place where action and sales existed, and with the emerging markets suddenly restricting their appetites for business aircraft, the pressure of an overburdened marketplace fell on North America.

Increased inventory levels coupled with fewer buyers significantly impacts the value of the pre-owned fleets and creates greater deltas between new and pre-owned aircraft. This situation puts even more pressure on the OEMs to shape a favorable residual loss figure for potential buyers to use when considering new equipment. Residual values were also affecting the market for pre-owned aircraft.

### Other Factors

Almost overnight, the lending and reporting community projected the loss rate of an acquired business aircraft to be 7-8% annually, noticeably higher than the 3-4% annually we had been using. This change is real, and coupled with all of the other areas of concern listed above brought a sobering realization that our aircraft were indeed declining assets.

Our industry realized its greatest growth of first-time buyers between 2001 and 2007. This surge in demand was due to economic growth in the US as well as globally. We were joyous that our industry was really becoming a global market. In fact, there was so much growth during that period that OEMs could not keep up, and backlogs grew.

What happened next was equally troubling, unfortunately. Buyers started to pay premiums on top of full retail prices for new and nearly-new aircraft. This surge created a generation of owners that really believed aircraft went up in value every year they were in service. Our community created the largest segment of owners that ever came into our industry with what was an unrealistic sense of value.

Today our industry is realizing that business aircraft really do age, even if only by one year every 12 months. So let's score 2015. We experienced:



“ Today our industry is realizing that business aircraft really do age...”

1. An overnight shift in where Business Aviation is growing: North America.
2. Geographical buying segments all but stopped.
3. OEMs again scratch their collective heads to determine correct production numbers.
4. Pre-owned pricing once again is struggling to get its footing.
5. An overall downward shift in the annual rate of residual loss for all aircraft, new and pre-owned.

How would I score 2015? I would give it a five out of a possible 10. If your client's aircraft has a customary configuration and is priced reasonably, you will find a buyer. On the other hand, if your client believes current prices do not reflect market conditions and prices will go up soon, there will not be a sale. Remember, in today's market, every day that you do not sell a 'for sale' aircraft, you risk a fall in the eventual realized price. ■

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