

Old Airplanes, New Expectations

Understanding the Cost of a Great Price

As he watches our industry recover, Jay Mesinger ponders how much life is left in the older segment of the Business Aviation fleet – for those buyers who are both realistic and careful...

When I refer to the older segment of the business jet fleet, I include the older Learjet, Hawker and Falcon models and the like. While the operating costs might be higher than for newer jets due to age of the aircraft as well as the time on the engines and airframes, who could argue with the purchase prices for these aircraft?

Irrespective of the operating costs, a prospective buyer of older equipment can still potentially secure “a lot of airplane for their money”, and this still holds true today.

Under certain conditions and applications, older airplanes have life left inside of them, and we have had the privilege in recent months to represent several for sale. Moreover, in every case we’ve been successful in selling our listings. But there is one factor that has been essential in every instance: product support is rapidly disappearing within this sector.

When we consider product support, we are not just talking about the manufacturer of the airframe, but of equal importance the OEMs of the aircraft’s systems and components. When you own an airplane and have no plan to sell it, you learn to live with some inoperable systems (and by that, I mean systems non-essential to the legal operation of the aircraft, i.e. the flight phone, DVD player, coffee maker, etc.). The rubber meets the road when you plan to sell, however...

The Cost of a Great Price

Even as we have done a few times lately, you can carve certain systems out of a requirement of a delivery condition. For example, it may be noted that all systems will function except the two installed DVD Players. This can work if everyone is in agreement, but do try to be very specific in the Purchase Agreement.

Beware, also, that some buyers will use that knowledge to try to repurpose the price of the aircraft. They do not give any value to the already low price they are paying, or the courtesy of the seller letting the buyer know well in advance what is and isn’t functional.

By way of a cautionary tale regarding buying/selling older aircraft, let me offer the example of a recent pre-buy inspection of an older Falcon model. We had previously carved out the two flight phone system handsets in the cabin area that were non-functional from the Purchase Agreement, but when we got to the pre-buy inspection we realized the cockpit handset did not work either.

Suddenly we weren’t just dealing with a handset issue, but a bigger system issue. You’ve guessed it - once we identified the problem we discovered the vendor no longer made the parts to rectify the problem. The only alternative was to replace the system with one that was supported by the OEM at a cost of approximately \$150,000.

The buyer’s glance at the seller told it all: “How are you going to handle this one?” Of course, the buyer knew that the seller was

neither going to reduce the price by that amount or replace the system with the new, supported one. Nevertheless, this scenario reminded me of the famous saying that ‘Price is a onetime thing, but Cost is a lifetime thing’.

There is a motivating price to buying older aircraft that can also come with a less than motivating cost. I am sure each of you who buy and sell aircraft can add your own stories of the cost of a great price.

Managing Expectations

This article is not intended to suggest that these older airplanes do not have a long life. It’s meant to set an expectation more in line with the reality of the ownership lifecycle.

Buyers: do not approach these ‘great buys’ as though there’s no collateral cost associated. Very often the net effect is still in favor of the buyer, but be very careful to understand each and every system in the aircraft. Understand as you weigh the benefit of the purchase against the cost to maintain non-essential systems that may be important to you and your operation.

Sellers: you can help the process by heeding the following advice...

- Know that when you seek to sell the aircraft, the buyer may set expectations for his own operation that may be different than yours.
- Always represent the aircraft from the very first day with the non-functioning items you want to ‘carve out’ of the Purchase Agreement.
- Price the airplane accordingly, and then focus on all of the great things about the listing.
- Let a potential buyer know that additional expenses may occur if those items are mandatory for their operation.

In summary, I do not see the emerging markets rebounding during 2016, meaning continued pressure on North America to whittle away the high levels of aircraft inventory available on the market. This continued pricing pressure will produce ongoing opportunity for buyers.

Frankly, whether you like the prices or not, the fact that transactions are occurring brings even greater opportunity for the seller. First time buyers will be rewarded with a lower cost-of-entry to the market. Be vigilant, be aware, and be ready to pounce. ■



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