

BUSINESS JET TRAVELER[®]

- GLOBAL 5000 REVIEW
- HOLIDAY GIFT GUIDE
- JET-LAG REMEDIES

Ernie Boch, Jr.

He owns a 30,000-square-foot mansion, 80 guitars, 60 cars...and one luxuriously appointed Cessna Citation Sovereign



The importance of accurate information in a tightening pre owned market

AIN PUBLICATIONS | SPECIAL ADVERTISING INSERT | 2018



PHOTO: CY CYR

Reowned business jet retail transactions continue their multi-year growth streak, with 2018 on track to surpass last year's 2,668 total, according to JetNet. But after a decade of free-falling residual values and an excess of available aircraft, the market is rapidly shifting, with the percentage of business jets for sale dropping to their lowest level since 2005: 9.3 percent of the fleet, according to the data service.

"Inventories are drastically down, and prices are beginning to rise," said Marc Foulkrod, CEO of large-cabin jet brokerage Avjet Global Sales, which has more than \$8 billion in transactions under its belt.

"There's definitely a reset going on," agreed Chad Anderson, president of Jetcraft, whose 20 offices worldwide have brokered more than 500 transactions in the last decade. "There's no such thing as a cheap airplane right now, but there are still plenty of good value plays for buyers thinking long-term."

The change has caught many shoppers by surprise. "Everybody wants yesterday's airplanes at yesterday's prices," said David Coleman, a member of the Aircraft Sales & Acquisitions team at Duncan Aviation, whose MRO services

grew from the company's sales operation, established more than 60 years ago. "Getting them to understand that's not possible is difficult."

Brokers themselves may have trouble keeping up, said Jay Mesinger, president of Mesinger Jet Sales: "If you haven't been in the business for more than 10 years, you don't have a playbook for finding the right aircraft [for a client] in a tight market like this." With more than five decades and two generations of experience, Mesinger Jet Sales is among the brokerages at the top of their game in a challenging environment like today's.

To succeed in this market, brokers need reliable data—whether for establishing real-time valuations, to have confidence in the spec sheet of a for-sale aircraft, or to learn which jets are coming to market months before they do. We spoke with four major brokerages about the impact of the shift and the information resources they're using to navigate the turning tide.

Today's market: The brokers' perspective

Later-model and larger-category aircraft are leading today's market correction, according to the brokers. "Any current-

generation turbine [aircraft] and one generation behind are seeing a tremendous amount of activity," said Duncan Aviation's Coleman. "The geriatric jets are not moving and their prices are still falling."

Meanwhile, midsize, super-mids and large-cabin jets "have seen inventories drop anywhere from 50 to 80 percent in the past few months," said Foulkrod, and prices for some models have risen accordingly. "We sold a G550 last year in the \$17 million range and also purchased one for a client of ours in the \$15 million range," Foulkrod said. "Both those aircraft would trade well above \$20 million in today's market."

Not all clients have bought into the change. "We're still finding buyers disregarding the intelligence of an acquisition specialist and asking for concessions that might have been reasonable a year ago but are outside the boundaries of what's acceptable today," said Mesinger.

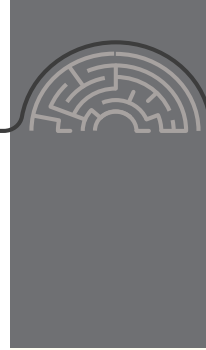
Such shoppers pay the price in a different way. "Some [buyers] have to miss a few deals to realize the message [of the market shift] is honest," said Anderson. "There's often more than one buyer for a properly marketed, properly priced airplane, and [buyers] who out-wager the negotiation often miss the plane they really want to buy. It's painful and it's awkward, even when we're the seller."

For brokers, success means finding inventory, and even those that do have a playbook may be out of shape for the new game. "I think brokers became complacent and lazy when inventory levels were high, and they have had a hard time adjusting," said Foulkrod.

Adding to the squeeze, OEM production cuts of the past decade mean fewer recent-vintage than legacy aircraft exist, and what may appear to be an abundant supply of an in-demand model is often illusory. "We look at the universe of any category of aircraft for sale," said Mesinger. "Then we dissect how many are N-registered, how many have no damage history, the equipment, the pedigree, maintenance history, con-



PHOTO COURTESY OF JETCRAFT



"If you haven't been in the business for more than 10 years, you don't have a playbook for finding the right aircraft [for a client] in a tight market like this."

- Jay Mesinger,
president of
Mesinger Jet Sales

figuration, and all of a sudden out of a list of what might be 30 airplanes for sale, [only] two or three check all the boxes.”

Moreover, today, “Most of the quality, appropriately priced aircraft are selling prior to being marketed,” said Coleman. That’s because hard-working, well-connected brokerages relentlessly comb fleets and talk to OEMs, flight-department heads, management companies, and many others to learn about their sales or acquisition plans well before they happen, and arrange for a private sale.

“It comes down to being in the market 24/7 and touching each owner/operator on an almost monthly basis,” said Foulkrod. “The last thing you want to have happen is that you buy your client an aircraft and a week later he sees one he likes better and you, the broker, weren’t aware of it.”

At Jetcraft, “Having one airplane create two deals is how we’re sourcing quality aircraft and creating resale inventory,” said Anderson. He cited pending transactions, including ones for a Challenger 300, G450, G550, and a Global Express in which the company is buying the customer’s current aircraft to facilitate a more seamless transition into the purchase of a larger, later-model one. “The common theme in all of [these deals] is the word ‘trade,’” said Anderson. “Trade fell out of vogue when the market was in Never Never Land. Dealers couldn’t pinpoint a value on the inbound aircraft for trade in. Now that the market is stable enough to predict values, trades are becoming very common again. We have the financial strength to take in a wide range of models in trade, and that is proving to be very beneficial for our clients in today’s market.”

In an environment that challenges seasoned brokerages, finding a quality aircraft “isn’t a job for your flight crew or maintenance manager,” summed up Coleman. “If you’re not working with a trusted industry professional with a broad network of contacts, you’re going

to be too late to the party, or you’re going to get a lesser-quality aircraft, and you’re going to pay too much.”

The role of reliable data: A dynamic transactional environment

Today, information about available aircraft, prices, and market metrics is more bountiful than ever, often just a click away, but industry professionals do not rely on such reports and caution against using the data for transaction decisions.

“The credibility and reliability of data is a real challenge for our industry,” said Anderson. “The most actionable intelligence we have, frankly, is our own experience. When we’re handling 80 to 100 transactions per year, we find our own real-time information is best.”

That research approach is exemplified by Jetcraft’s annual 10-Year Business Aviation Forecast, a comprehensive view of expected transaction activity over the coming decade. “A lot of our clients are institutional, and they demand and deserve a very global, forward-looking perspective,” said Anderson.

A reliance on in-house research and proprietary resources is standard at major brokerages. “We do our own analysis in real time based on our market data gathered through contacts involved di-

rectly in each deal,” said Foulkrod. “To gain an edge in this industry, you need better information—not the same information that everyone else has access to.” As for publicly available data, “Much of it is inaccurate, biased, or doesn’t represent the transaction in detail,” Foulkrod added. “Manipulation and inaccuracy are rampant in our industry, either through sheer incompetence or through biased self-serving representation.”

Information about any aircraft listed for sale also bears close scrutiny, noted Mesinger. “Often, nobody is checking the accuracy of the foundation of that [aircraft’s] spec sheet, and it might not have been checked in the last two or three transactions. Ask for the spec sheet and the marketing materials to be audited by an inspection facility” that has had access to the aircraft, Mesinger advises.

Buyers need to consider ownership costs as well as purchase price, requiring detailed information on maintenance requirements, lifecycle event schedules, and operational history. Duncan Aviation, among the world’s largest business aircraft MRO providers, “touches about 80 percent of the [business aviation] fleet each year, said Coleman. “That allows us to provide a very accurate picture in predicting what clients should expect to pay in maintenance if they buy an aircraft in one condition compared with another

“It comes down to being in the market 24/7 and touching each owner/operator on an almost monthly basis.”

— Marc Foulkrod,
CEO of Avjet
Global Sales



How do you verify the bona fides of the aircraft you represent?

Chad Anderson, Jetcraft: If we don’t see it in black and white on the airplane, it doesn’t go on the spec sheet. We have offices around the world, so we don’t have to operate remotely. We have our own set of eyes on every airplane we’re selling. It allows us to know its strengths and weaknesses.

David Coleman, Duncan Aviation: We start with an inspection of the airplanes we’re considering representing or buying for inventory. We recently got a spec sheet that talked about exceptional maintenance, perfect records, and no damage history and so forth. We sent one of our tech guys to inspect the airplane and lo and behold, the reality was quite different.

Jay Mesinger, Mesinger Jet Sales: We put together a report based on an on-site inspection by our in-house technical director. It’s not just a clean-sheet spec package; it’s a narrative on our logbooks and records review that deals with continuity, completeness, and items that would be critical to the buyer’s assessment of valuation.

Marc Foulkrod, Avjet Global: This is an area where inexperienced brokers and consultants create disastrous financial and safety consequences for buyers and sellers. We do everything short of a pre-buy inspection when listing an aircraft, including bringing our own technical people to review log books and review the aircraft.

condition. We put that into our figures when performing aircraft evaluations, providing a high degree of confidence in a particular aircraft's life-cycle cost."

Recalibrating expectations and standards: Adjusting to the new market realities

For serious prospective buyers in this market, the rules are simple, said Coleman. "They need to invest an appropriate amount of time with an experienced, knowledgeable broker; drill down into the needs and wants; settle on a budget; design a box [of suitable aircraft] to play in; and then hunt for aircraft that fit that box." Otherwise, he said, "Indecisiveness will cost them several potentially really nice airplanes."

On the other side of the deal, though the current market can't support big price hikes, "Most sellers today want a hard transaction—not a soft transaction—where the buyer's deposit becomes non-refundable at contract signing," said Mesinger. "If the seller can deliver on a very, very balanced set of delivery conditions, the buyer has to buy."

For his acquisition clients, Mesinger's company developed a purchasing strategy for new and pre owned aircraft that is constantly being adapted to an ever fluid marketplace. We have bought some of the finest planes available—7Xs, G550s, Falcon 2000s—understanding how to go

into a crowded market and get the attention of the seller," said Mesinger. "We're offering a smart price, and smart custom terms, as well as the usual and customary terms."

Keeping clients in the loop is a critical part of a well-managed transaction, and today brokerages must utilize a variety of channels to serve their customers. "It's imperative to understand how to maximize all the communication tools," said Foulkrod. "What works for one client may not work for another. Our clients need clear, concise communication to make decisions quickly, but more importantly, accurately and with full information at their disposal. Being able to use all the tools available makes the difference between success and failure in our industry."

Buyers slow to accept this new market will ultimately align expectations with reality, if they want an aircraft. "We had a client who missed two Challengers," said Anderson. "Now we have one inbound on trade, and we've said, 'If you want it, this is the number,' and they get it. Because the buyers we're working with are now knowledgeable enough to know the value of the deal."

Amidst the market shift, the brokerage community faces issues that could reshape the field, including calls for regulating brokers and allegations of unethical brokerage activity. A push for higher standards can be seen in

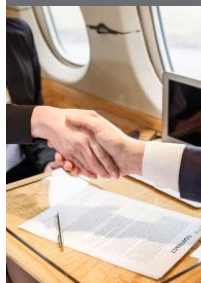


PHOTO COURTESY OF DUNCAN AVIATION



"Most of the quality, appropriately priced aircraft are selling prior to being marketed."

— David Coleman,
aircraft sales &
acquisitions at
Duncan Aviation



"The credibility and reliability of data is a real challenge for our industry."

— Chad Anderson,
president of Jetcraft

the International Aircraft Dealers Association's (formerly NARA) initiatives to develop a broker accreditation program, and a uniform sales contract based on the yacht industry's model; and the NBAA's statement on ethical business aviation transactions issued one year ago.

While opinions on increasing regulation vary, agreement appears universal that buyers and sellers must recognize, as Mesinger noted, that "there is no barrier to entry to be an aircraft broker, no educational standard, no accreditation required."

"I used to say anybody with a stack of quarters and a business card could be a broker," Mesinger continued. "Today you don't need a stack of quarters."

One area of concern is so-called "back-to-back" transactions, where a deal is funneled through an intermediary. "Sometimes back-to-backs can be extremely useful, especially in international transactions," said Coleman. "But when the parties involved don't know someone is in the middle with a finger in the pie, it becomes a real ethical issue and needs to be addressed in the industry."

Meanwhile, some buyers and sellers, in an apparent attempt to save on fees or commissions, still shop for representation by price, and engage inexperienced and incapable brokers less likely to observe proper standards. "The people who don't do many deals are the wild cards," said Anderson. "In the end, low fees often cost the client a longer time on the market, less worldwide exposure, and lower resale values. The client got a lower fee, but at a very high price."

Despite efforts to counter such conduct, some believe that if the market shift intensifies, the problem will get worse. "Any asset markets where there is a huge imbalance of supply and demand lend themselves to improper and unethical behavior," Foulkrod said. "Such imbalances create huge profit opportunities at the expense of the client, so therefore a negative by-product is a rise in this type of behavior." ■

Prepurchase evaluation slots are getting harder to schedule as capacity at MROs tightens.