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COVIDized Aircraft Marketplace

What the data and the current activity tell us about the PA46 resale market.

by Jesse Adams

Perhaps stating the obvious, COVID-19 has disrupted all but a few lucky industries, crushing the airlines and small businesses. We see fewer airplanes in the sky and more on *Controller.com*. How has the aircraft market performed? Your concern (or curiosity) is understandable. Fortunately, the light aircraft marketplace is very active, perhaps due to a combination of rising demand for mobility and opportunistic purchasing by latent buyers. They had been waiting for a chance to jump into the marketplace. This is a reason for cautious optimism, but to be frank – it's still a buyer's market for the time being. And that is a good thing because we are all buyers.

Perception is Reality

The carnage inflicted by the complete economic shutdown was apparent immediately. March and April were brutal for us all, whether it be my dear friend with the best casual sushi restaurant in Kansas or my client with his recession-proof (not COVID-proof) hair salon chain; no one escaped. Meanwhile, our friends at the airlines saw April domestic traffic down 90% YoY, and business aviation down 70%.

Light aircraft transactions did fare better than the others but were not immune from the pain. In mid-March 2020, we had 17 aircraft in our closing pipeline, including a Vision Jet. Fast forward one month and only seven transactions had closed, five purchases were put “on-hold” citing COVID-19 concerns, and two deals just fell apart due to airplane deficiencies. In summary, we lost 30% of deals to COVID-19 concerns. The overall sales volume in April was down 15-20% from the same time last year, but unit pricing remained intact within 3% of historical averages. These numbers proved our perception that it was as bad as we knew; however, the trends we see now are quite interesting.

Slowdown Ahead?

Marketplaces are typically lagging indicators, and aircraft sales are no different. Is there a slowdown ahead? The answer is: No, and yes.

Let's start with the positive news. As I write this article, the S&P 500 opens merely 3.5% down YTD or 40% up from March's abyss. This may turn out to be a reflection of irrationally optimistic expectations toward the U.S. economy, but certainly, it is also an inference of aircraft buyer emotions and insights. As a broker of

high-performance, owner-flown aircraft, I see myself as the front line of personal mobility. While the heavy iron may carry XO's of publicly-traded companies and airlines haul the weekly commuters, it is the owner-flown piston and turbine singles, such as the Piper Meridian, Mirage, or the Cirrus SR22 that get me excited because they track the fortunes of high-end small business. This sector appears to have rebounded quickly. We hear more of them passing overhead, we see that excellent maintenance shops are backed up as usual, and GA airports are looking pretty close to "normal." All good signs.

Daniel Baker, CEO of FlightAware, made the statement that GA is leading the way to recovery in air travel, noting that weekend leisure travel is nearly back to 2019 levels. Looking at the data, the weekend's air traffic of 6/13 was within 12% of the same weekend in 2019. Meanwhile, the airlines are operating at 30% of flight capacity, though even they see a slow and steady climb. Reduction in commercial routes/frequency, added restrictions, and growing health risks have brought about a paradigm shift to private aviation, and created new missions for current aircraft owners (Baker, D. FlightAware).

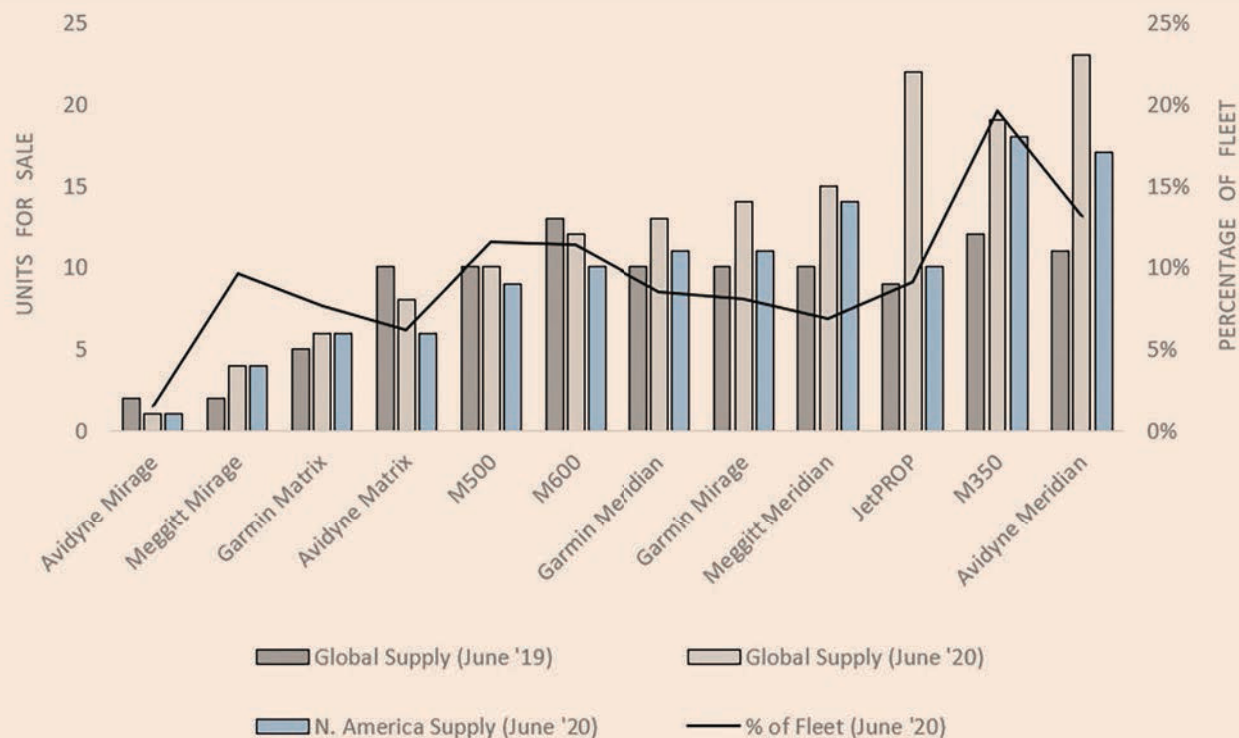
Controller.com currently has 5,570 aircraft for sale (phew!); however, they routinely see anywhere from 5,300 –

5,800 listings; so, the current inventory is no problem. But it's important to recognize this is still a time for intentional sellers versus ones who are not invested in the sale and merely romancing a certain number.

Here is the not-so-good news. PA46 market supply grew by roughly 30% in June 2020 compared to June 2019. That's slightly better than the Cirrus pre-owned market, which is the bellwether for the light aircraft marketplace and saw inventory increase 40% over the same period. Back to the Piper, the principles of supply and demand apply, of course. However, to get intelligible trend data, it is necessary to subdivide each Piper product into in-kind "segments." For example, the Piper Meridian that debuted in 2000 and is currently rebranded M500 will be broken into four segments because buyers searching for one of these are typically not searching for the other: Meggitt Meridian, Avidyne Meridian, Garmin Meridian, and M500. In other words, thanks in part to the MMOPA community, buyers have become highly discriminate and intentional about which segment they intend to purchase. This invariably helps us understand market dynamics better.

Looking at *Figure 1*, there are three things to bear in mind: selection, competition, and demand. You can infer that the left half (undersupply) is better for the sellers,

Figure 1: PA46 Market Monitor



and the right half (oversupply) is better for the buyers, but is there a sweet spot? Moving with the herd, and not being an outlier is generally a good thing. Comparing the segments against each other, the data suggests that healthy segments are those with under 9% of fleet for sale and no more than 10 competing units. As outliers, the Meggitt and Avidyne Mirage segments are so small in turnover that they do not offer much selection to the buyers.

On the other hand, the M350 segment supply is overwhelming. For the no-upgrade-needed M350, surprisingly, 1 out of 5 ever produced are currently for sale. The Avidyne Meridian segment also stands out - it is simply oversupplied with 23 units for sale. Of course, part of the explanation may be the enthusiasm around the Meggitt Meridians (think panel upgrades) over the Avidyne Meridians. In any case, this suggests that prices in these segments must start adjusting downward to get back into harmony. Let me be clear, these are both incredible planes, and I thoroughly enjoy flying the Avidyne panel (and very satisfied with Extant's warranty support). But the market is sending a clear message that an adjustment is needed.

The JetPROP is a cool plane, and will probably always remain a very specialized product for the unique buyer to match. That segment had the most substantial YoY increase in supply, albeit in the international market. Finally, while not referenced in the chart, "legacy" PA46 (pre-2002) show a very lively marketplace and an excellent opportunity for buyers and sellers with only ~5% of the entire fleet for sale. Bottom line, if you fly an older PA46, SR22, Bonanza, etc., and have considered an upgrade, now is a great time to start looking for value. If you are thinking about selling one, you'll want to be laser-focused on proper pricing data to make sure your aircraft moves as efficiently as possible for the best price.


More Good News

We all understand that the buyers did not disappear. We all kept looking at the aircraft listings, but we were rightfully fearful for our lives and businesses. We held off on large capital expenditures until we could see some dust settling, which took the market no more than 45 days.

We at Aerista saw May sales volumes within 15% of December 2020 and well above that of May 2019. June transaction volume doubled YoY! It is a very exciting time in aircraft sales. What about price erosion? There is not a one size fits all answer to pricing. Individual's motivations are the most significant driver to pricing. Remember that as a seller, especially in the more crowded segments, you are competing for the same buyers as the motivated sellers. Thus, the market typically adjusts downward before rebounding. We've seen asking prices reduced by as much

as 10%, from the Meridian up to the M600. However, the actual closing prices have held much tighter, keeping within 5% of historical closing data for aircraft over \$500k and, occasionally, trading above market value.

So, is a few percent representative of the "COVID discount?" Yes, that was all we saw. More importantly, as Seneca (the Roman philosopher, not the Piper model) once said, "Every new beginning comes from some other beginning's end." When I said we are all buyers, it is because almost all of my clients have been rolling their sale proceeds to a new transaction. Since the onset of this pandemic, I have helped at least a dozen clients get a good price for their aircraft, with the mindset of the bigger deal ahead, be it another aircraft or a completely new endeavor. In these cases, the COVID discount has worked in their favor! Simple mathematics. The example of a 5% loss on the Mirage is offset by similar savings on the higher-priced Meridian, leaving enough left over to cover its first annual inspection, at least! I am not saying that every seller must accept a discount, but due to the fact there is still uncertainty in the market, many buyers still expect some savings. Of course, the alternative is to hold out for more (we hope), though I give the general caution on trying to time the market.

We seem to have made it, and we are getting back to flying again. The aircraft market is doing just fine – and the bottom never dropped out. If you are a seller, be deliberate, consider enlisting the help of a professional, because the increased competition demands it. If you are a buyer, hurry up before the market takes off without you! 



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