



Malibu M-Class Owners and Pilots Association

MAY / JUNE 2022

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Volume 12 Issue 3



Practice Makes Proficient

Why recent experience matters

Aircraft Market

Is there a correction ahead?

2022 Tucson LIVE

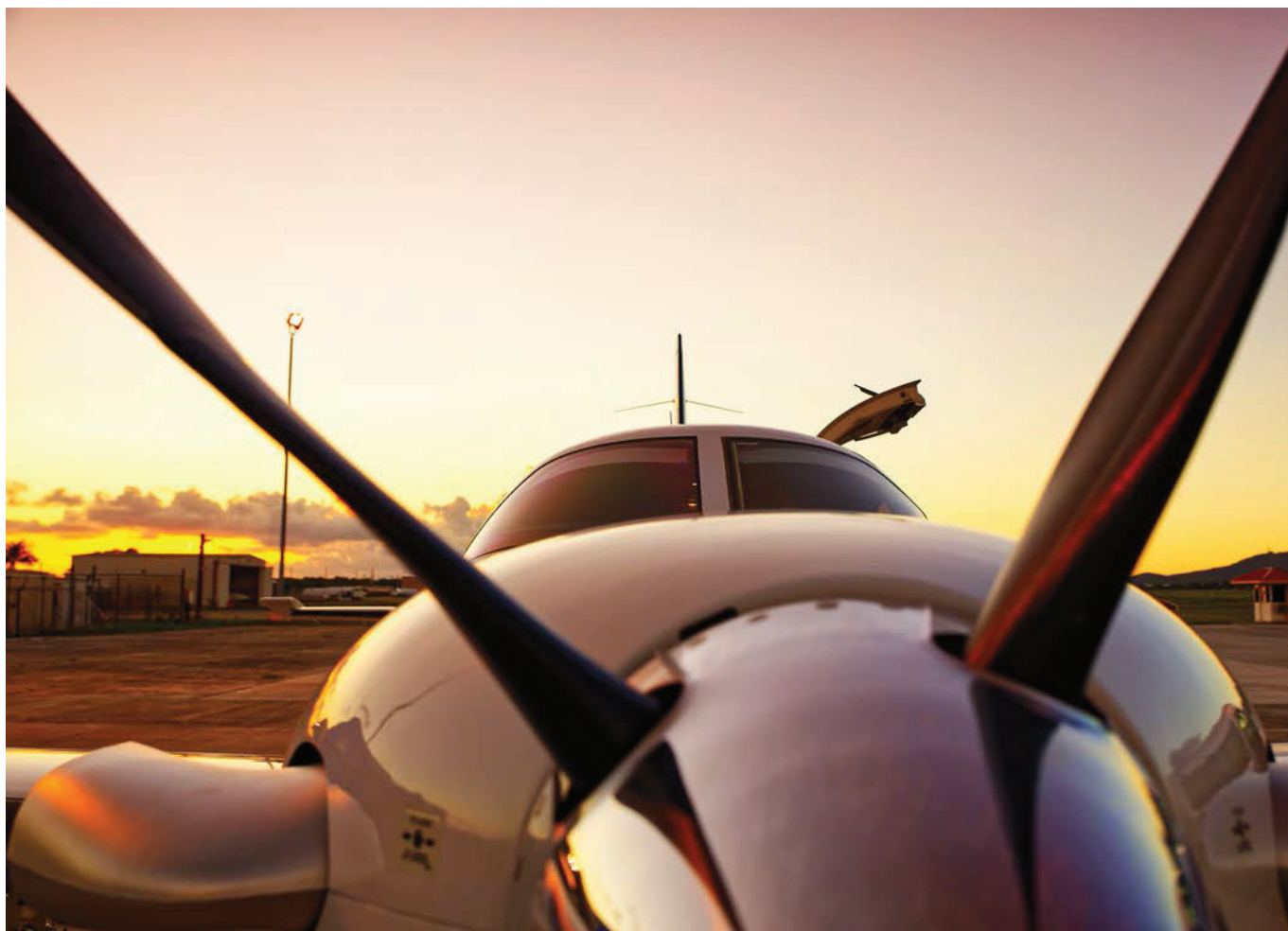
Inside the Pima Air & Space Museum

Dream Hangars

FOMO Aircraft Marketplace:

Is There a Correction Ahead?

by **Jesse Adams**



General aviation seems to have evolved into a new “life form” on Earth. Not only have the inconveniences and health concerns of airline travel been epitomized, but wealth generated by asset appreciation has made long-time aircraft owners grin with satisfaction and perhaps signifies an evolutionary change to the pecking order of general aviation in society. Scarce inventory has perpetuated buyer fear of being left

out, resulting in a massive uptick in demand and prices.

Might that same fear of missing out (FOMO) amongst sellers create a corresponding inflection point in pricing?

Those who do not already own a plane have probably experienced FOMO. Conversely, long-time owners are rightfully proud of their highly desirable assets that the whole world now adores – even spouses share

enthusiasm for this “intelligent” purchase. So, these owners are inevitably content; or are they? The narrative of buyer FOMO is well documented, but emotions do not only drive the impulse to buy.

Market Conditions Beg the Question

It is not hard to see that the current market is getting over-leveraged,

which is ultimately negative for the industry. Highly depreciable assets have been handsomely appreciating, and when the bull run is over, many people will be left holding the bag of overpriced aircraft notes. What we might want to consider is the notion that prices have risen so much that there may be rivaling FOMO burning inside owners – to SELL. With everyday goods in short supply (tried purchasing a car or truck lately?), it's no secret that anyone in possession of an airplane has an appreciated asset. The market conditions have led many clients to ask us, "have aircraft prices topped out?"

The demand side of the equation may answer this before the supply side can respond. History lends clues to leading indicators. Take a look at the financial markets first, which have always been a fair inference of consumerism. Trepidation is understandable, as the S&P's 22-month rally is now into correction territory as this article is being written, oil is in excess of \$100 per barrel, and the Fed continues raising rates to curb inflation. On top of this, Russia's invasion of Ukraine increases the risk of economic fallout.

It is well documented that people typically spend more in strong markets because they see their wealth growing, not only from their investments but for business owners, from the positive effects of consumers buying their goods and services as well. On the other hand, down markets erode consumer confidence, and the appetite to spend decreases. But even if demand remains strong, might more supply start to work its way into the market due to owners' fear of missing the top?

Zero to Hero?

Seismic events can cause market disruption and occasionally accelerate trends that were destined to happen (eventually) on their own. Right now, all planes are "heroes," whether it be a PA46, SR22, 152, or even a 414



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(no knock against old cabin-class). Further to this point, aircraft that have traditionally sat on the market for months due to “stories” in the logs or even damage history have traded within weeks, which further affirms the current sellers’ market – and why many sellers are beginning to take advantage while it’s here. But I challenge that mantra because they are not all heroes. Having wings and valid registration shouldn’t be the only requisites for an in-demand asset. The pandemic has certainly adjusted the market’s appetite for aviation, but the smoke will eventually clear. Is the aircraft that you traditionally own/are seeking seeing heavy demand, or is this merely a fad of the times?

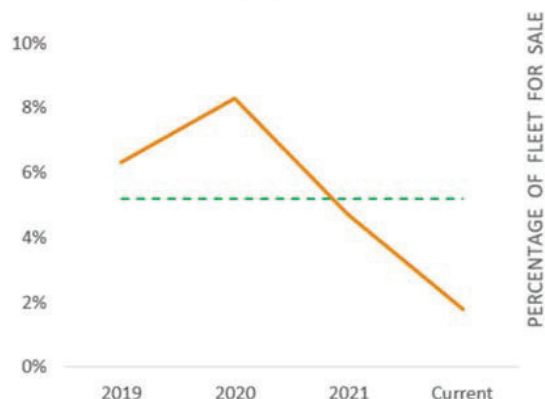
Let’s take a look around. Cirrus is an OEM to watch, as many SR drivers will ultimately transition into a PA46, and their market share is large enough to possibly foreshadow,

if not sway, their peers. Pre-pandemic, the typical SR market sees around 4% of its total fleet for sale, compared to 8% for the PA46, respectively. This may be a metric of the better selling plane versus the more exclusive plane, possibly explained by accessibility: higher average price point, required training, and lower production volume. Amidst the pandemic, both markets saw their supply quickly rise, then fall to record low levels that we’re seeing today, but not proportionally. I find it fascinating that while the PA46 marketplace has always been smaller by the number of units, its supply is currently running 20% leaner than the SR market in terms of percentage of fleet! This is a stunning story for the PA46 – definitely a hero.

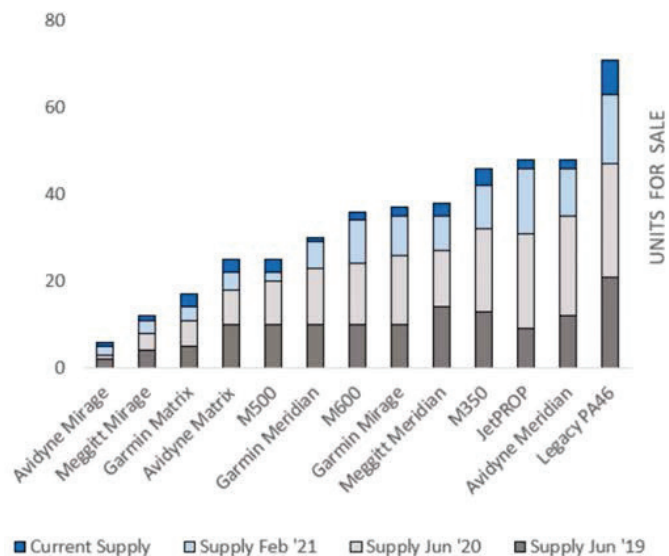
Let’s drill deeper into the “segments” or the subdividing of the fleet into various iterations, e.g., “G1000

Meridian,” “M500,” etc. The chart below represents supply per segment over the past several years. The current supply (dark blue) has dwindled and is inadequate across the board. The combined height of the stacked columns suggests correctly that over the years, you’re more likely to find, say, a Legacy PA46 over an M500. As you evaluate if the plane you’re considering selling or pursuing has always had strong demand, consider this: Some of the segments with the lowest number of current units for sale (dark blue) appear on the right side of the chart. This suggests they are hot now but historically plentiful. Picking on the JetPROP, Avidyne Meridian, and M350, it’s a fair assessment that these aircraft are in higher demand than ever. That could suggest clues that their demand will soften ahead. Still, there could also explanations for their new adoption, such

PA46 Supply - % of Fleet



PA46 Supply Per Segment



as efficiency, available avionics upgrades, or overall scarcity for a modern pressurized aircraft.

Our Counsel

Aerista, a leader in high-performance, owner-flown aircraft sales, is seeing a steadier, albeit meek, flow of inventory coming into its pre-market “hopper.” Our inventory has grown for the last six months, with the Cirrus SR supply up 30% YTD! It is reasonable to believe that other brokerages are seeing similar trends. With the picture getting clearer week by week, aircraft owners fall into three categories:


Those who will hold. You have considered upgrading, but seeing the inflated market, you will stay put and cherish what you have. You’ll make sizable investments into avionics and refurbs. Keep in mind how these depreciate and don’t expect a 1:1 return on your investment (in normal times). Also, consider the money spent and the opportunity cost (aka flying time).

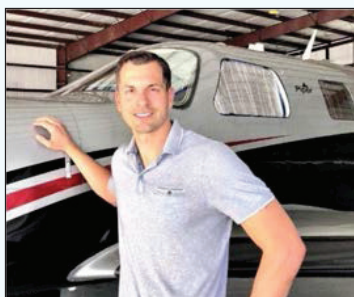
Those who will upgrade. Try not to focus on the lofty acquisition prices but the price delta between the sale and the purchase. Timing is an issue, of course. You prefer not to own two aircraft, or you can’t be without an aircraft. The best scenario is access to interim aircraft, e.g., renting or leasing that can wager the market with the prospect of selling high and buying low. In either case, synchronous or sequential transactions will add a high level of complexity with associated pitfalls; consider the benefits of working with a broker that can handle both sides.

Those who will exit. You have considered selling but have put it off due to the hassle or sentimental attachment. The market is better than ever to sell, and you have heard the prices that comparables have brought. It makes sense to cash out before it’s too late. With no great substitute for an aviation “MLS,” a broker that is an expert in your aircraft type will have

fresh data to get you the top price in this rapidly changing market.

For those who will sell, there is an imminent opportunity if you act now, as money is still cheap with buying power strong. The good news is that at this point, you have not missed out (yet). However, more owners jumping on the bandwagon to sell their aircraft may find it a self-fulfilling prophecy, inciting what they were trying to avoid. Will inventory exceed buying activity in 60, 90, and 120 days, or will the buying appetite remain insatiable? I do not proclaim to have the answer, but perhaps FOMO could help balance the scales near to mid-term.

While no one knows what comes next, we have watched the aircraft marketplace with fascination and probably a little anticipation. If you are shopping for a plane, maybe the tides are about to turn – maybe not. Also, you must consider the time/value of your happiness. If you have considered selling or upgrading, take advantage of this great opportunity before you – MISS OUT. 



Jesse Adams, CFI, II, MEI is an accomplished aviation and business professional. As a Cirrus owner and PA46 mentor pilot, Jesse was an organic fit for the high-velocity brokerage firm Aerista and leads their Piper sales & acquisitions.

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