

September 2017

AVBUYER™

BUSINESS AVIATION INTELLIGENCE



The Registry of Aruba

ONE STOP
REGISTRY

THIS MONTH

www.AVBUYER.com

Aircraft Comparative Analysis:
Citation Mustang

GAMA Q2 2017 Shipment
Analysis

Plane Sense on Cockpit
Avionics

Aircraft Registries –
Home or Away?

Bizliner Appraisal Concepts

How Do You Value Airline-Type Aircraft Used as 'Bizliners'?

Neither the Aircraft Bluebook Price Digest nor the Aircraft Value Reference covers market values of Airbus Corporate Jets or Boeing Business Jets, notes Jeremy Cox. While other sources cover Commercial Airline models, how can you approach valuing a 'Bizliner'?

Commercial airliners are working aircraft designed specifically to generate revenue from carrying passengers and freight. A Business Aircraft, meanwhile, is an extremely efficient business tool – akin to a smartphone, laptop computer or tablet.

The appraisal methodology utilized for valuing Commercial Airliners is usually applied to Bizliners. These techniques have been honed and driven by the financial institutions that lend to

the airlines as well as by leasing companies that purchase Commercial Airliners.

Although the potential for making money from brokering a business jet is hazy, the Bizliner's is valued by placing heavy emphasis on its ability to earn its keep within the commercial market.

A mission-specific, purpose-built Bizliner such as Boeing's BBJ2 will appraise above US\$100m. Conversely, an ex-airliner converted 737-300 might appraise below \$500k based upon its airframe/engine hours, condition and maintenance status.

As such, value is never a fact but always an opinion on the worth of a property at a given time in accordance with a specific definition of value. In appraisal practice, value must always be qualified: for example, market value, liquidation value or investment value.

Jeremy Cox is Vice President at JetBrokers, Inc, a National Aircraft Appraisers Association (NAAA) Senior Certified Aircraft Appraiser, as well as a NAAA Qualified Buyer's Agent. Jeremy has been a Director of Maintenance for several different companies and employed by several airframe OEMs' independent Service Centers. Contact him via jcox@jetbrokers.com



Base Value

In the case of determining the Base Value of a Bizliner, current and historical market values are researched, tracked, reasoned with and then utilized in an adjusted format to establish a Base Value. Forming an opinion of market value involves several variable factors, which generally fall into three categories:

1. The relationship, knowledge and motivation of the parties (seller and buyer);
2. The terms of sale (cash, cash equivalent or other terms); and
3. The conditions of sale (exposure in a competitive market for a reasonable time prior to sale).

Residual Values

The Residual Value of a Bizliner is usually based upon one of two calculated values: Half Life Value or Full Life Value.

Half Life Value is an extraordinary assumption made where it is assumed that all airframe, engines, landing gear and all other major components including life-limited components are all at mid-time between overhaul and replacement. Effectively no value adjustment has been made for any of these items, except for the assumption that they are 'mid-life.'

If the starting 'base value' is not adjusted for the 'mid-life' assumption, then a monetary value can be assigned to the assumed status and added to the base value. This status value is determined by taking each overhaul and/or replacement event. The total cost of each is taken and divided by the overhaul/replacement interval. Then each hourly/calendar cost is adjusted up to their mid-point (or mid-life).

Full Life Value is either an extraordinary assumption or it is in-fact truth where all airframe, engines, landing gear, and all other major components including life-limited components are

all reset to 'zero', meaning they are fresh, new and/or overhauled.

Salvage Value

For some older Bizliners that may have started their service life as a commercial airliner and were subsequently converted, 'End of Life' or Salvage Value may be appropriate in determining its appraised value.

Base Value is never used in determining a Salvage Value. All serviceable 'in-life' large appliances like engines, landing gear, flight controls, avionics and all re-saleable components are appraised for their individual parts values. Some may require overhaul to achieve a parts value, and the costs for servicing these parts are deducted from the market values of freshly overhauled units to determine their Salvage Value. Removal and storage costs must also be figured into the Salvage Value.

For the aircraft elements that remain (i.e. airframe, interior, cowlings), the determination of the Scrap Value is the final element required to complete the appraisal. Scrap value is based solely upon the articles' metal, or other recyclable material content (a fraction of a USD per pound of dirty aluminum, steel, etc.).

Securitized Value

Another value concept common in appraising Commercial Airliners and occasionally required within a Bizliner appraisal is 'Lease-Encumbered', or 'Securitized Value'. If an aircraft is being operated under lease when the owner decides to refinance or sell it, then a Lease Encumbered Value must be determined by the appraiser to facilitate the pending financial transaction.

“All serviceable ‘in-life’ large appliances like engines, landing gear, flight controls, avionics and all re-saleable components are appraised.”

All security deposits, lease payments, the term of the lease, and the future residual value at lease termination must be factored into the final opinion of value. The accuracy of this type of appraisal is very fragile, unless all factors are made known to the appraiser, and are included within the assessment. These factors can extend to lessee purchase option rights, sub-leases, term extensions, return/repossession conditions and defaults.

Engine Exchange

Finally, an old concept almost unheard of in the Business Aviation world, but commonplace in the Airline and Leasing world, is that of aircraft engine exchange. GE Aviation, for example, offers the TrueChoice program - a pool of between 20 and 40 powerplants of specific engine models.

This pool enables an aircraft operator or leasing company to swap a damaged, or over-valuable* engine from an aircraft, and replace it immediately with another engine that is fully operational, meets the operator's or leasing company's exact requirements for engine build condition, and doesn't require the operator or owner to send the engine being replaced away for expensive repair or overhaul. The engine being replaced by the exchange is then purchased by GE Aviation, based upon its fair market value.

*Over-Valuable: i.e. an engine that has considerably more TBO and/or Cycle-Life Remaining, that is not commensurate with the end of lease or future lease parameters required. By cashing-in on this value, and exchanging the over-valuable engine with one of a reduced status, the leasing company can free up capital for use in other aircraft. ■

