

# MARKETLINE

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## VALUE RETENTION IN TODAY'S MARKET

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There has been conversation and many questions over the last few years relating to residual values, value retention, value as a percentage of cost new, values coming back, et al. For years, our industry used a 3 to 4 percent annualized depreciation schedule to gauge future values for business jets. Due to the fact our business was in its infancy, we did not possess formidable history to determine the validity of the schedule. When we buy-in to the fundamental assumption that aircraft are depreciating assets with a 30-year life cycle, most business jets will reflect an average midlife (15 years) value retention of 50 percent, when compared to the original cost new.

**IN THE MAJORITY OF CASES, THERE SEEMS TO BE A COROLLARY BETWEEN THE TOTAL AIRCRAFT MANUFACTURED AND LOWER RESALE VALUE**

As illustrated in the data sheet, we've made every attempt to compare aircraft in an equal light. For out of production aircraft we use a 1999-year model reflecting 14-years in service.

For current production business jets, a 2007-year model is used reflecting 6-years in service. Regardless of the term, each make/model is generating nine to ten percent annualized depreciation. For each year through 2013 we've calculated the average [pre-owned] selling price for the respective model. The original price new reflects the average contract price for each make/model for the stated year.

Clearly, these numbers should not be construed as 'one size fits all.' Each transaction and make/model comes with its own set of dynamics. However, aircraft with greater capability (higher passenger loads, transcontinental range, increased performance, later generation avionics, etc.) tend to retain a higher percentage of their original cost new. In the majority of cases, there seems

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### BLUEBOOK-AT-A-GLANCE

#### JET

INCREASED	23
DECREASED	278
STABLE	702

#### TURBOPROP

INCREASED	5
DECREASED	36
STABLE	591

#### MULTI

INCREASED	5
DECREASED	266
STABLE	404

#### SINGLE

INCREASED	248
DECREASED	240
STABLE	2144

#### HELICOPTER

INCREASED	17
DECREASED	33
STABLE	1085

to be a corollary between the total aircraft manufactured and lower resale value—the greater the number built, competitive landscape increases and value retention erodes quicker. As of July 2013, AircraftPost calculated an average ten percent of current generation business jet fleets on the market. The range is from 2 percent of the fleet for the G550 to 22 percent for the Lear 60XR. In the case of the former, an anomaly exists. There are now over 425 G550s in-service which would lend one to believe, based on the above-mentioned criteria, that early year models should be retaining less of their original cost new. Current data however, reflects the opposite.

As evidenced recently in pre-owned markets, selling prices continue a downward trend. As newer generation avionics are installed in the next iteration aircraft (i.e., Global Express/XRS/Global 6000; Lear 60/60XR; GIV/IVSP/450, etc.), these newer aircraft will place more pressure on pre-owned aircraft. The rate selling prices decline is determined in part by the above-mentioned and also driven by global economic factors. With the eroding geopolitical situation in the Middle East, South America and Asia, countries like the U.S. and Japan accruing debt of \$16 and \$10 trillion, respectively, it's a wonder our markets are generating the sales they are.

Where do we go from here? In a nutshell, if our dollar continues to lose value, the price of most everything goes up. Does that include pre-owned aircraft that have been selling well under 'normalized markets?'

Out of Production													
	1999	2008		2009		2010		2011		2012		* 2013	
	Price New	Avg Sale Price	% Retention	Avg Sale Price	% Retention	Avg Sale Price	% Retention	Avg Sale Price	% Retention	Avg Sale Price	% Retention	Avg Sale Price	% Retention
Hawker 800XP	\$ 10,500,000	\$ 6,800,000	65%	\$ 5,100,000	49%	\$ 4,000,000	38%	\$ 3,300,000	31%	\$ 3,000,000	29%	\$ 1,800,000	17%
Falcon 50EX	\$ 17,500,000	\$ 17,700,000	101%	\$ 7,500,000	43%	\$ 7,500,000	43%	\$ 7,000,000	40%	\$ 6,700,000	38%	\$ 5,000,000	29%
Gulfstream G200	\$ 17,500,000	\$ 13,200,000	75%	\$ 8,500,000	49%	\$ 8,000,000	46%	\$ 6,500,000	37%	\$ 5,000,000	29%	\$ 4,700,000	27%
Falcon 2000	\$ 20,000,000	\$ 20,600,000	103%	\$ 11,800,000	59%	\$ 9,000,000	45%	\$ 9,100,000	46%	\$ 8,000,000	40%	\$ 6,700,000	34%
Challenger 604	\$ 21,600,000	\$ 20,400,000	94%	\$ 11,500,000	53%	\$ 8,000,000	37%	\$ 9,000,000	42%	\$ 7,800,000	36%	\$ 6,000,000	28%
Gulfstream GIVSP	\$ 29,000,000	\$ 29,000,000	100%	\$ 18,200,000	63%	\$ 13,300,000	46%	\$ 13,100,000	45%	\$ 10,600,000	37%	\$ 9,800,000	34%
Falcon 900EX	\$ 29,900,000	\$ 33,200,000	111%	\$ 18,700,000	63%	\$ 18,100,000	61%	\$ 20,100,000	67%	\$ 14,700,000	49%	\$ 14,100,000	47%
Global Express	\$ 38,000,000	\$ 47,500,000	125%	\$ 24,250,000	64%	\$ 23,500,000	62%	\$ 23,600,000	62%	\$ 20,700,000	54%	\$ 18,400,000	48%
Gulfstream GV	\$ 39,500,000	\$ 38,200,000	97%	\$ 21,000,000	53%	\$ 20,700,000	52%	\$ 21,000,000	53%	\$ 19,500,000	49%	\$ 18,000,000	46%
In Production													
	2007	2008		2009		2010		2011		2012		2013	
	Price New	Avg Sale Price	% Retention	Avg Sale Price	% Retention	Avg Sale Price	% Retention	Avg Sale Price	% Retention	Avg Sale Price	% Retention	Avg Sale Price	% Retention
Citation Sovereign	\$ 16,100,000	\$ 14,100,000	88%	\$ 12,800,000	80%	\$ 11,100,000	69%	\$ 11,000,000	68%	\$ 9,000,000	56%	\$ 8,800,000	55%
Challenger 300	\$ 17,900,000	\$ 22,000,000	123%	\$ 15,300,000	85%	\$ 14,800,000	83%	\$ 14,500,000	81%	\$ 13,700,000	77%	\$ 12,100,000	68%
Challenger 605	\$ 21,000,000	**		\$ 18,000,000	86%	\$ 23,000,000	110%	\$ 22,000,000	105%	\$ 20,000,000	95%	\$ 16,100,000	77%
Falcon 2000EXy	\$ 24,200,000	\$ 31,500,000	130%	\$ 21,800,000	90%	\$ 21,650,000	89%	\$ 20,000,000	83%	\$ 19,600,000	81%	\$ 18,000,000	74%
Falcon 900EXy	\$ 35,000,000	\$ 43,000,000	123%	\$ 29,800,000	85%	\$ 28,500,000	81%	\$ 27,000,000	77%	\$ 26,800,000	77%	\$ 23,600,000	67%
Gulfstream G450	\$ 34,800,000	\$ 43,000,000	124%	\$ 26,500,000	76%	\$ 29,000,000	83%	\$ 28,800,000	83%	\$ 28,500,000	82%	\$ 21,750,000	63%
Global XRS	\$ 45,500,000	\$ 55,000,000	121%	\$ 40,300,000	89%	\$ 41,100,000	90%	\$ 41,000,000	90%	\$ 37,800,000	83%	\$ 35,500,000	78%
Gulfstream G550	\$ 45,800,000	\$ 58,000,000	127%	\$ 38,300,000	84%	\$ 41,200,000	90%	\$ 41,000,000	90%	\$ 38,250,000	84%	\$ 37,300,000	81%

\* YTD July '13

\*\* '0' pre-owned transactions