

What Is My Airplane Worth?

There are many times during the course of any given year that I am asked the question by aircraft owners, 'What is my airplane worth?' There are many reasons owners ask this question. It could be the beginning of transition considerations, or the owner may just want to check in on the changing market conditions and how they might be affecting their specific asset.

Of the many times during the year when I reach out to just say hello to clients, there is one time for sure when the client reaches out to me: insurance renewal time. This annual event resets the policy clock and starts a new one in motion. The conversation quickly becomes all about the value of the owner's airplane.

The aircraft insurance policy has many complicated components to it - hull value, liability, war and confiscation provisions and more. I am by no means an expert when it comes to insurance coverage; however I am gaining a much greater awareness of it as the shifting tides of valuation create conversations around the changing hull coverage.

In the not-too-distant past the amount owed to a lender was usually within 10-20% of the original purchase price. The lender, of course, would mandate as a covenant of the loan that insurance coverage be in full force. The lender's main concern was that the loan would be repaid if there was a loss.

Today, keeping up with the covenant of borrowing, and the reduced values of aircraft against the borrowed amount is creating new and very interesting challenges for all concerned. What has not changed is the lender's position; they have an outstanding debt to recoup, and they expect to be paid the full amount for the loan.

If you bought a plane five years ago and paid \$20 million dollars for it with a 90% loan against it, the bank would have had a fairly balanced valuation. Back then this provided no real challenge for the insurance company. It was very clear that when the insurance companies had challenges, they would share the challenges with the insured.

Now, let's move forward several years to

today's market and take a look at the new reality of insurance challenges. Today that \$20 million dollar aircraft that was purchased five years ago may only be worth \$8 million, but the bank is still owed \$17-18 million. Herein lies the challenge. Regardless of the real value of the aircraft today, you can still buy insurance for the hull portion based on the debt. There's no real correlation between value and hull coverage.

This may seem like no big deal so far, but here it comes: Let's say your aircraft is in a hangar and the roof falls in. Your aircraft is insured for \$20 million dollars, and the insurance coverage is based more on the debt component than the actual value of the aircraft. Of course you are paying for that coverage so the cost of insurance is higher than if you bought that plane for \$8 million and only had to insure the hull for \$6.45 million dollars (for example).

The insurance company arrives to evaluate the situation and looks at all the airplanes that have been impacted by the disaster. Four of the airplanes have insurance coverage on their respective hulls that far surpasses their actual hull value - in some cases by as much as 50 percent. Two of those airplanes are insured for an amount that is far more in line with their current value, either because they were purchased more recently, or there simply may not have been any debt. What is an insurance company to do?

For some, the answer seems simple; some people get paid an amount that is equal to the coverage because of the proper alignment between the insured hull value and the real aircraft value.

The insurance company would look at the mess, and if the assessment concluded that it would be more costly to repair than the value of the hull portion of the policy, the insurance company would call it a total loss of the asset and simply pay the insured/lender the amount for the total loss.

If however, you have over-insured your asset, the insurance company will be unable to declare a total loss and will be inclined to repair even the worst case aircraft. This is due to the insurance coverage being so out-

of-line with valuation that the insurance company determines it is more economical for it to fix the plane than to write a check for the total loss.

This explanation may seem over simplistic since there are so many complex nuances that exist. As I mentioned at the beginning of this article, I am not in the insurance business and am just touching on what I see as one very important aspect. Cutting straight to the moral of this story: Unless forced to insure for a value that exceeds the current valuation of your aircraft, don't insure the aircraft for more.

Buying insurance is a very important component of a successful aviation experience. In fact, better than complex company structure designed to insulate one from liability, there is no better liability protection than a well written insurance policy. It is a must. But buying insurance to hedge a bet or even better one's financial position in case of a loss is ill conceived.

Buy the protection you need to replace what you have. Use accurate value numbers. If you need help determining the value, make a call to your trusted aviation sales professional and get the facts.

› Jay Mesinger is the CEO and Founder of J. Mesinger Corporate Jet Sales, Inc. He is on the NBAA Board of Directors and is the Chairman of AMAC. Additionally, Jay served on the Duncan Aviation Customer Advisory Board for two terms, is a member of EBAA and a member of the Colorado Airport Business Association (CABA). If you would like to join in on conversations relating to topics like this, and other trends in the business aviation market, join Jay on the cutting-edge of business aviation by sharing your comments on these various social networking platforms - Jay's Blog www.jetsales.com/blog, Twitter and LinkedIn. For more information visit www.jetsales.com ■

