Price Tracking

How Do We Value Our Aircraft?

One of the most elusive factors in our industry is determining what our aircraft are worth. Buyers say they paid less; sellers say they got more! Who's right? asks Jay Mesinger.

Both Aircraft Bluebook and Vref do a great job of reporting on many factors effecting valuation, add-ons, value differences between model years, and impact on damage and poor cosmetic condition. Each publication struggles to capture real value of the base aircraft, however. Both report based on prior quarter sales. In this rocky recovery period as numbers of sales transactions remain lackluster, gaining enough quarter-over-quarter insight produces a very unpredictable barometer.

As we read each month about the deliveries of new aircraft, our industry tries to put into perspective the value of the pre-owned segment of our fleet. Unlike many industries, ours does not have a recordation body that captures actual sales prices. Real-estate and even used cars are tracked with accuracy.

Our industry is impacted by speculation, hearsay and confidentiality agreements that keep buyers and sellers from being willing to—or even having an interest in—divulging sales prices. So where does that leave us? It leaves us guessing about what is the proper sale or purchase price for an aircraft.

New aircraft deliveries for the most part are tracked based on the manufacturers setting their base retail pricing on an airplane when new. Except for some small discounting at time of purchase from the manufacturer, the value-guessing game begins when the aircraft reaches its first owner.

In our industry's past we were all using a factor of about 3-4% per year as a fairly accurate residual loss rate. Collectively our industry is coming to understand that a more realistic number should be as much as 10% for the first year, then as much as 7-8% for each year thereafter. Might that number begin to go down after some number of years? Probably. How much is still not defined.

Doing the Math

How do we, as an industry test this? That's easy. We can each use example airplanes for which we have absolute knowledge of the sales price. Take that sales price and do the math:

- Turn to one of the reporting books and look at the original 'new' delivery price;
- Deduct 10% off of that number for the first year;
- Deduct 7% from the remaining amount, annually, until you reach the current year.

How close does that number come to the actual sales price that you truly believe? If the loss rate seems too aggressive, go to year six and reduce the loss rate to five percent per year, deduct that amount and then calculate for the next year. My sense is that such an approach gets you either right on, or very close to the actual sales price.

During our pre-downturn years—2003 to 2008—selling numbers were often skewed by premiums being paid for new or very-like-new airplanes that were available for immediate delivery. Be sure that you do not use the premium price to calculate current value. That premium was lost in one day starting at the first resale of the aircraft after its original premium-laden purchase.

As an industry, we have been burdened with inaccurate information regarding pricing for way too long. The more iterations of aircraft sales we have, the more difficult it becomes to peg residual value. Using an understated annual residual loss rate only complicates an already complicated calculation. It also hinders an accurate understanding of values and keeps a solid trajectory from occurring in a recovery.

As long as sellers cannot trust input as to what number to ask (or even worse what number to accept) as a sale price, and buyers do not know what number to trust as a purchase price, any meaningful business of buying and selling cannot get traction.

The post-2008 period in our industry has been full of false starts. After one quarter, we shout recovery. After the next quarter we scratch our collective heads and wonder where the recovery went. I reported a year or so ago that 'flat would be the new up'. If we could just get 3-4 consecutive quarters of flat pricing we could consider that a healthy market. That has still not happened. Sure the trend is leveling to some extent, but we are still not on solid ground.

We are not ready to relax and consider that the good old days have returned. We must all work harder than ever, and we expect that hard work to continue for some time. The days of coasting through a career may be gone for good. Maybe the requirement to work harder and smarter than ever in the history of our industry is a good thing. It raises the barrier for entry into this great industry of ours. ▌

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