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2010 Volume 2

*The Quarterly Newsletter of Vref – For People Who Demand Accuracy,
And Know the Difference!*

Synopsis - - As we move into the Summer of 2010, there has never been a market so fractured, with so many ups and downs. Or, does it just seem that way after a dismal 2009, when *everything* raced toward the bottom – together? There are numerous influences, positive and negative, and each one is a worthy headline.

Let's start with the most important, **Exports Revive GA**. For years, we have thought pitiful airline service was one of the best drivers of general aviation. Though the airlines continue to send disgruntled customers our way, it is the robust export market that has helped breath life back into everything from Cessna 182s to Gulfstream 550s. As offshore economies recover and grow, the U.S. remains the best source for private aircraft.

Personal Wealth Staggering! It is true that the personal savings rate in the U.S., Japan and elsewhere is not what it should be. However, for a certain upper percentile life has never been better. Aircraft dealers estimate that nearly 90% of today's transactions are sans loan. This is just as true for a \$500k Cirrus SR22 as it is for a \$50M Global Express. That *Wealth* headline at least partially offsets one of the big negatives in the current market, **Lending Standards Remain Tight**. Potential buyers, not in that upper percentile, continue to complain loudly about higher down payments and other restrictions which keep them out of the market.

Huge Underclass Confounds Market! The large number of repossessed airplanes continues to make the backend of the elephant seem pretty bad. Fortunately, today's buyer is not going in blind – in fact, most are more knowledgeable than ever. A professionally marketed, well-maintained airplane can easily be worth 20 to 30% more than a derelict, or one that is *perceived* as such. By the time a buyer makes an offer on a Cessna Cardinal RG or a Falcon 900, he or she has probably inspected a dozen of them, and flown four or five. Most of today's buyers can tell the difference between a good value and a cheap airplane with a cover-up paint job.

Piston Singles Advance! After a decade of falling prices, eager buyers have moved in and prices are moving up. The Vref Light Single Index jumped 4.4% in the recent quarter. Complex Singles gained 2.6%, up three quarters in a row. In any other economy, we'd call that a trend. However, there is no way to tell how future buyers will adjust to a market that has clearly moved off the bottom.

A Neanderthal cockpit in an unbelievably well engineered, well made airframe - that describes the typical 20+-year-old piston single. Thank you Walter Beech, Clyde Cessna and William Piper for designing and building airplanes that outlived you all, and will probably outlive most of us. True, many are in need of a digital makeover – to say the least. However, these old airplanes (if they were

cars could easily get a historical plate) represent some of the best values in the industry. For the price of a dolled up SUV (\$60k), you can buy a nice Beech Sierra, a Cessna 182, an older 210, or Mooney Ranger, a Piper Archer, an Arrow, or half a new LSA. Any of these will easily travel twice as fast as a Cadillac Escalade, and you might be able to avoid that center seat on ContiUni Airlines a little more often.

The rising tide did not float all boats. If an aircraft is too needy – poor paint, damage *and* ancient radios – it'd better be really cheap.

Piston Twins Bottom Out? Prices Irresistible! We've thought that before – back in 2007, 2008, and again in 2009. The upward movement is tiny, but noticeable. The average piston twin has steadily lost value in nearly every quarter since 2001, with only a slight bump from the housing bubble. Prices were hammered due to fuel and maintenance costs. In the recent quarter, the Vref Piston Twin Index gained 1.6%, while the average Pressurized Twin moved up 1.5%. Most dealers still report the piston twin market as slow. However, Beech 55 Barons, late model Cessna 340s and 414s, older Piper Senecas, and Aztecs appear to have moved off the bottom. Again, the rough and runout airplanes are a tough sell.

Turboprops Flat, but Active. Another way to put it is stability. After settling to an all time low, the Vref Turboprop Index has stayed there for one year. With steadily increasing activity, there is the expectation of higher prices. However, the horde of inventory must thin out before any real price increase is realized. King Air B200s, one of the benchmark turboprops, still has 12% of the fleet for sale. There has been little change in that percentage for several quarters.

Jets Price Sensitive, and Mixed. Dealers report good activity. A few say they've never been busier. There is a certain urgency now to buy at the bottom. In some markets, Bombardier Global 5000s, late model CitationJets, Citation XLSs, and early Lear 45s, most of the low hanging fruit has been picked. The 'must sells' are much less common, and owners are sticking closer to ask price.

Most of the jet market continues to be price sensitive. The Vref Light Jet Index lost 1% in the recent quarter. Mid-Size Jets fell 4.7%, while older Large Jets dropped 7%. Activity is happening, but clearly at a price. In some markets, Beechjets, Challenger 601s, Falcon 50s, GIIs & IVs, Citation 650s, and Citation Xs, a slashed asking price is still the best way to attract buyers.

Have we turned the corner? The general consensus is, we have. However, there are way too many airplanes for too few real buyers to sift through. Total inventory levels are only down about 2% from early last year. And, then there is still the lending issue. The perception on the street is that money remains too tight. Finally, the issue that trumps all others – The Economy. When the Stock Market had its 1,000-point hiccup a few weeks ago, the aircraft resale market got acid reflux disease – thankfully just for a day. At this early stage of the recovery, consumer confidence is very easy to shake.



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The Look Ahead: IF the U.S. recovery stays on track, and the European nations keep each other bailed out, and if banks loosen the purse strings just a little – ok, a lot – we are poised for a slow, but sure comeback.

Have a Great Summer!