2019 Holding Strong in the Face of New Challenges

This year has certainly faced new challenges both in terms of politics and the economy. With growing concerns that the USA is heading into a recession or correction, and certain looming market pressure due to the tariff war in China, we at VREF have been pleasantly surprised to see how well aviation is performing as a sector.

We recently wrapped up our annual manufacturer meetings and 2019 should be slightly better than 2018 in terms of new aircraft deliveries and we are forecasting a slightly lower transaction number for 2019 compared to 2018.

Across the board from all the Business Jet manufacturers.

**ADS-B Out Deadline**

If you are in the market for a light sport aircraft or trainer you know how tight inventory is and the proof is the strong residual values, which we are reporting now for 6th straight quarter.

Also, worth noting are the recent numbers regarding the ADS-B out deadline, which now stands at 70% total fleet compliance.

Where will it cap out? We are anticipating numerous 30+ year old aircraft will be removed from the market at the end of the year, and we should still see double digit percentage of the total fleet grounded due to lack of compliance.

The Asia Pacific region was the second largest market for piston airplane deliveries for the fourth year in a row at 18.5 percent of deliveries. In 2018, 49.8 percent of turboprop airplanes went to customers in North America. The second largest market for turboprops was Asia-Pacific at 15.1 percent, followed by Latin America at 14.9 percent. At 65.1
2019 Second Quarter Market Updates

Piston Singles
Most values are stable apart from some single engine models increasing slightly in value. The high demand for Flight Training has had and will have an impact on value via supply and demand.

Piston Twins
Steady values on most models with some upward trends on Flight Training utilized models (i.e. Piper Seminoles/Diamond Twin Stars). These light twins are almost impossible to purchase. This market segment will be affected by Flight Training demand for years to come!

Turbo Props
Caravans are still selling and holding value and less than 20 confirmed aircraft are for sale which is just about 1% of the fleet. The King Air 350i has also benefited from a hot market, and there are less than 4% available or 14 aircraft for sale on the pre-owned market.

What turbo prop market update is complete without the darling child of aviation the PC12? NG’s are in high demand, and with a market time under 6 months they don’t stick around long.

Business Jets
It is still a North American dominated market, and we did see overall transactions slide almost 10% in 2018 compared to 2017. We expect that trend to continue as almost 50% of the current pre-owned market will continue to drag down overall value averages simply due to lack of interest from buyers.

High Net Worth Individuals continue to dominate the market share of buyers in the USA, and most buyers indicate that young, newer aircraft with the latest technology are far more interesting than “deals” on older classic aircraft.

As technology continues to drive purchasing decisions and older aircraft face the scrap yard, we are surly going to see the available for sale fleet percentage drop. The activity levels have not changed much and for the first time in years we see a very balanced market.

It appears the only sector having stomach pains about the lack of pre-owned aircraft are the brokers and dealers looking to utilize credit facilities and purchase inventory. CL 300’s, 605’s, Legacy 600’s, 2000LXS’s are below 6% availability on the pre-owned market. Phenom 300’s, CL 350’s, G550’s are below 4%. Softer markets include just about every model older than 20 years of age. Hawker 800’s are hovering at 13%, 850XP’s are 18% and older Citations are just under 12%. Exceptions to the rule are aircraft with recent total refurbishment, 2020 compliance and strong pedigree aircraft.

Sales declines are based on lack of available aircraft to choose from, buyers continue to report dissatisfaction with lack of

Unit Deliveries
Continued from page 1
percent, North America accounted for the largest share of the business jet market in 2018. There were 281 piston rotorcraft deliveries in 2018 compared to 264 in the prior year. Preliminary turbine rotorcraft delivery data shows a 5.0 percent increase to 695 shipments.
availability. This is a positive sign as the market appears relatively balanced despite all the economic chatter.

**Commercial Aircraft**

Boeing has monopolized the news recently, and with recent crashes, fleet groundings of the Max aircraft and potential uncertainty as to when they will fly again it is no wonder that Boeing stock took a major hit. The total loss in market value has exceeded 26 Billion and there is almost a guarantee of order delays and cancelations. On the flip side, things continue to improve at Airbus, with a staggering back log of almost a decade. It is apparent the clean sheet approach has garnished the attention of numerous airlines looking to add A350’s to their fleet. If you have flown on one, the windows in the cabin combined with the sound proofing in the interior creates an amazing ride.

**Helicopter**

The big news in recent helicopter happenings is the bankruptcy filings of PHI and Bristow, 2 of the world’s premier helicopter operators (following the also recent filings of CHC, Erickson and Waypoint Leasing).

While both operators have stated that they will continue normal operations, the reality of bankruptcy is that they will likely have to terminate the marginal and poorly performing contracts. As a result, we should see a bunch of aircraft being put on the market in a relatively short time frame. Both PHI and Bristow operate large fleets of medium and large helicopters, which happen to be the poorest performing segment of the helicopter sale/resale industry.

Adding more aircraft to the pre-owned market will exacerbate the situation inexorably bringing sales prices down even further. Witnessing several similar financial situations over the last 45 years, we find that past descriptions used by helicopter journalists and reporters regarding these large companies as “embarking on aggressive expansion” or some similar language always connotes to the reader that this is a good thing, our experience is the opposite. Historically companies that pursue this type of rapid growth are expanding due to a “must grow or die” mentality with the newer contracts subsidizing the older ones.

On a more positive note, the light helicopter market, although still rife with some uncertainty, appears to be stabilizing and even showing some increased pre-owned sales activity. VREF statistics show an increase in this segment’s values over the last two quarters and we expect that trend to continue its slow rise at least into the next quarter or two.

**UAV**

The Federal Aviation Administration (FAA) latest aerospace forecast highlights what it calls the “phenomenal growth” of the small unmanned aircraft systems industry.

According to the forecast report for fiscal years 2019-2039, there were more than 277,000 non-model unmanned aircraft registered with the FAA at the end of 2018, representing a bigger growth rate than the agency had anticipated. With a forecast of 158,900 made by the FAA a year prior, it fell short by a substantial 80%. The FAA predicts that the U.S.’ non-model UAV fleet will total more than 835,000 in 2023.

In other big news, UAV delivery company Wing, a subsidiary of Google parent company Alphabet Inc., has received Air Carrier Certification from the Federal Aviation Administration (FAA), enabling the company to begin commercial service delivering goods to homes via drone. Wing drones have flown over 70,000 test flights and more than 3,000
deliveries to doorsteps, driveways and backyards of customers in Australia (the test region). The program will be expanding to Virginia where trial deliveries will start this year.

Europe

There has been a lot of activity in Europe, however the business jet market faces many challenges. The main problem is the limited capacity of the airspace system and a lack of airport slots. The airlines grew at the expense of the other sectors of aviation and although everybody is talking about over-capacity, airlines continue to open new routes (thus competing with business aviation on 2nd and 3rd tier routes) and adding new aircraft to their fleet.

Operating a business jet becomes increasingly challenging, as you must apply for airport slots (and sometimes parking slots) which may not be available at peak times or you are kept on the ground as ATC restricts the traffic flow due to a lack in staff. However, we see increased demand in charters and some upgrades to larger aircraft, but those replaced are usually exported to the USA or Latin America. So, buyers looking for opportunities should have a look at European aircraft, they are usually well maintained and professionally operated (in this respect the strict oversight by EASA pays off).

We see the balance of the year playing out in much the same fashion as the past several quarters and look forward to reconnecting with friends, and clients at EAA and NBAA.

Sincerely,

Jason Zilberbrand and the VREF Staff