



MARKET TREND REPORT

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Flying High or Falling Fast? Unveiling the Challenges in the Business Aviation and General Aviation Markets

The past few months have brought significant changes in the weather and the financial markets. As temperatures have risen, the markets have cooled, making it an interesting period with notable developments.

In this timeframe, we have witnessed three bank failures, three interest rate hikes (ten in the last year), and 81 S&P 500 companies issuing negative earnings per share guidance.

Additionally, there have been specific industry setbacks, such as the conviction of Debbie Mercer-Erwin from Wright Brothers Escrow, the sharp decline in Wheels Up's stock price (dropping 96.66% from its 2021 peak of \$11 per share to \$0.32), and the discontinuation of operations by Jet It.

These circumstances bring to mind various adages, including "what goes up must come down," "the higher you climb, the harder you fall," and the humorous remark, "You know how you make a small fortune in aviation? You start with a large one." These adages all imply that growth inevitably faces setbacks. Despite the belief of some individuals that they can purchase a



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business jet, operate it under Part 135, and achieve financial success through chartering, numerous obstacles make such business models exceedingly difficult to succeed. In reality, this field has far more failures than success stories.

Amidst the general doom and gloom, it's worth noting that the stock market remains in positive territory for the year (even if it is being carried by a half dozen companies and the debt markets are straining under rising interest rates), consumer spending continues to be strong, and unemployment rates are historically low. Although aircraft sales have slowed, transactions are still taking place (mostly cash, and most are planning to refi in the future).

However, the market's resilience varies depending on the aircraft type and region. Generalized statements about the overall health of the aircraft market are no longer applicable. The number of aircraft models falling under the "seller's" market category, with less than 5% availability, has decreased to levels not seen before the pandemic. Notably, even these previously favored models are experiencing an increase in inventory levels monthly, indicating an imminent return to the normal market range of 5-10% availability.

It's important to acknowledge that even the best-performing aircraft in terms of time on the market has seen a shift. Previously, these aircraft would find a new buyer within 30-45 days, but now the process takes over 100 days. The top performers of 2022, with less than 2% availability, have also experienced a doubling in availability, approaching normalized market ranges.

The most significant correction has been observed in business jet super-midsize and larger cabins, particularly those older than 15 years. Inventory levels for aircraft such as the **Challenger 601, 604, 605, Falcon 50, Global Express**, and **GIV** have reached their highest point since 2019, all-surpassing 9% availability. These figures do not include off-market listings, which would quickly push most of these models into a "buyer's" market, with over 15% of the operational fleet available for sale.

Several factors contribute to the pressure on larger airframes, including technical obsolescence, rising maintenance costs, and limited financing options. This situation will likely worsen as lenders seek to transfer the risk to borrowers by requiring more than a 30% down payment to secure loans.

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In some cases, older airframes may face dismantlement as parts become increasingly scarce and the cost of refurbishment exceeds the value of the aircraft hull. With most of these older aircraft no longer enrolled in engine and airframe programs, combined with the cost of overhauling engines alone, the end of the road is near for many of these vintage classic aircraft.

As an example, there are only **152 GIVs** in operation today, and **45** have been scrapped. The **Falcon 50** has **180** operational aircraft, **59** being discarded, and the **Challenger 601-3A** has **111** aircraft left in its fleet, with **23** being parted out or recycled.

Almost every business jet and turboprop has experienced a decline in value and demand. Models such as the **Cirrus Vision Jet, Phenom 100, Phenom 300, Citation M2, 800XP, Honda Jet, Citation X, Piper Meridian, Premier 1A, BJ400A, Gulfstream G650, G550, and Falcon 900EX** Easy have all seen corrections as sellers aim to attract buyers. It is worth noting that the **Gulfstream G700** will start delivering shortly, and with that, a bunch of **550** and **650s** will be brought to market, which, unfortunately, will place even more pressure on an already stressed market.

The current market environment is drastically different from 18 months ago and even from this time last year or in 2021. Price reductions have replaced premiums buyers were previously willing to pay as sellers struggle to find buyers for their aircraft. This marks a correction point in the market, where the seemingly boundless upward trajectory of values has been met with buyer reluctance. It remains to be seen if manufacturers can sustain their current sales numbers without resorting to traditional 4th quarter discounting tactics. While things have been favorable so far, we anticipate model-specific discounts to emerge as demand wanes, influenced by the availability of like-new pre-owned options.

The financing sector has taken a significant hit, with many lenders who were previously major aircraft financiers either exiting the market or becoming highly selective in their lending choices. While this may be a temporary issue, obtaining a loan for an aircraft has become increasingly challenging. Owners who purchased aircraft with adjustable-rate loans are feeling the mounting pressure, and large fleet operators, unable to generate revenue during the

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peak of the aviation market, are now faced with the unfortunate scenario of shutting down, accumulating more debt, and struggling to turn a profit.

There are only a handful of banks and financial institutions lending now; calls from lenders are all reporting the same thing, caution and a slowdown in the market. Many are reporting deals failing to close for one reason or another. While the piston market and utility helicopter values remain flat from last quarter, the in-production models, specifically the **Cirrus SR22/T**, have seen a seismic shift in value and demand. It might not surprise those who have been around long enough; we have all seen this before.

Although the current situation is not as dire as the circumstances in 2008, several economic, political, and environmental issues will ultimately shape the industry's future. For the first time I can remember, numerous transactions are coming across my desk that are principal-to-principal deals, meaning no broker is involved. While this might not seem like a big deal, the news is a little disturbing considering the opaque ownership history of aircraft, the recent escrow issues, and the trouble completing due diligence. I am a huge fan of using brokers; buying a business jet is no exception. As we get close to a looming election year, more volatility lies ahead as the Federal Reserve can still not tame inflation and more interest rate hikes look like a done deal.

On the economic front, we must watch the credit squeeze as the consumer faces higher delinquencies, lower credit, and the inevitable default. If the recent EBACE was any indicator, there is not much positive news in aviation at the moment, but resilient we are, and this, too, shall pass.

Looking ahead, both **Bombardier** and **Honda Jet** have introduced certified pre-owned programs. This trend is expected to continue growing as the people who built the aircraft are best equipped to offer these programs. Both initiatives provide warranties, complete aircraft refurbishment, and modernization. VREF acknowledges these programs in its database under conversions and modifications.

In other news, Textron unveiled the **Ascend**, an upgraded **XLS**, which makes sense, given the platform's popularity. In general aviation, the FAA recently released its revised listing of amateur-built kits, which now includes the

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Bushliner Cyclone 180, a replica of the ever-popular and scarce **Cessna 180**. We expect many to be paying close attention to this new offering offered in a builder assist program.

We have added several new aircraft models to our database and books, including the **Embraer EMB 120, Extra EA 300, 330LT, 300/L, Vans RV-14/A, Vans RV-7/A**, and **Airbus TwoTwenty**. We will be attending EAA in July and look forward to the summer.

Here are the market trends for the 2nd Quarter of 2023 without further ado.

– Jason Zilberbrand, ASA

Market Trend: Piston

The single-engine piston market is finally starting to contract, although most models have remained relatively flat since last quarter. The data is a bit misleading, however, as almost every model has seen pressure on the time to remarket, and many brokers and sellers report numerous price reductions to initiate a sale (it's relative, after all, as many of these aircraft were listed with pie in the sky asking prices well above market limitations).

The newer the aircraft, the bigger the fall; depreciation is finally starting to impact aircraft that seemed to be untouchable, including the market leader **Cirrus SR222/T** which is down 10% since last quarter. The **Cirrus** is also an indicator, and based on the softening in the financing market and the hard deposits **Cirrus** requires to order, the question becomes how many are willing to take delivery instead of walking away.

If they already own an aircraft, timing a trade or sale might be impossible given the current financing market restrictions. It is essential to remember that we witnessed a long bull run, so any correction we see short term will only be that a correction is coming. Some positive highlights are the **Husky's, 206s**, and **175s**, all getting a small bump in value this past quarter.

Market Trend: Piston Twin

The twin-piston market has remained mostly unchanged since last quarter. However, transactions are few and far between. This market is the most sensitive to economic and maintenance issues, and with the cost of many engines now up over 40% from pre-covid, it is no wonder that few buyers are willing to take the plunge. Combining increased insurance costs, higher operational costs, and the soaring cost of a new aircraft, the multi-engine market will remain sensitive for the foreseeable future. With that being said, the market is either flat or starting to adjust downward.

Market Trend: Turboprops

The turboprop markets, which benefited from skyrocketing jet values, have finally seen a correction as market pressure starts to seep in. We had to have known things were in for correction when many twin turboprop values exceeded entry-level jet prices; nonetheless, at the time, they looked like deals compared to the heavy premiums people were paying for the lack of props.

All kidding aside, the correction we are seeing in this market is similar to others; the question is, will a 10% drop in value be enough to keep buyers interested? Time will tell, and so will the data, but a quick look at the **PC-12** and **Piper Meridian** markets will demonstrate that inventory has doubled, if not tripled, in the past 6 months, and prices are being compressed to attract buyers willing to pay cash. The **208s** are down 4-10% since last quarter, the **Meridian** is down 3%, and the **M500** and **M600** are down 4% each.

Market Trend: Helicopters:

The helicopter market has entered correction territory and seen demand fall month over month for five successive 30-day periods. The number of transactions on the turbine side has dropped considerably as financing and collateral remain jittery. With that being said, the **Bell 412**, **427**, and **505** have all adjusted downward, as did the **A109E**, **AW109SP**, and **AW119**. The

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Robinson R66 is down as aircraft are taking, on average, over 300 days to resell, as are the **R44 Raven 1** and **2**. It's not all doom and gloom; a steady number of agricultural and service/utility transactions have come across my desk, and transactions are still coming in.

Market Trend: Business Jets

In the words of Howard Cosell, "Down goes Frazier, down goes Frazier, down goes Frazier," except Frazier isn't the heavy-weight contender, he is the business jet market. This should come as no surprise, as not one person I have spoken to in the last 30 days has reported positive news. Yes, deals are happening; yes, aircraft are selling, but there are quite a few challenges to keeping a deal on the train-tracks these days.

In addition, any recovery the industry was seeing from 2008 was only value-based as research and development are beyond slow from the OEMs, and there has been little to no progress beyond some new ultra-long-range aircraft. We are in correction territory, and with a forecasted slower-than-normal summer, this might be the first of many price reductions. Cash is king, and those willing to take risks are seeing rewards based on pricing and terms of recent transactions.

Just about every market is down between 8% and 20%.

Market Demand: Top Locations

Based on VREF Online Access

Domestic

1. Dallas/Fort Worth, Texas
2. Atlanta, GA
3. New York, NY
4. Washington DC
5. Chicago, IL
6. Los Angeles, CA
7. San Francisco, CA
8. Phoenix, AZ
9. Denver, CO

International

1. Calgary, Alberta
2. Tokyo
3. London, UK
4. Manchester, UK
5. Mexico City, Mexico
6. Sao Paulo, Brazil
7. Toronto, Ontario
8. Biggin Hill, UK
9. Monterrey, Mexico
10. Montreal, Quebec

Market Demand: Top Aircraft

Based on the number of valuations created through VREF Online on a rolling 30-day basis.

Single Piston

1. Cessna Skyhawk 172 N-P
2. Beechcraft Bonanza A36/G36
3. Cessna Skyhawk 172 I-M
4. Cessna Skylane 182 A-R
5. Mooney 201 M20J
6. Cirrus SR22
7. Beechcraft Bonanza F33A
8. Piper Cherokee PA-28-140 B-E
9. Piper Warrior II PA-28-161
10. Cessna Skylane Turbo T182T

Twin Piston

1. Beechcraft Baron 58
2. Beechcraft Baron 55 A/B
3. Piper Seneca II PA-34-200T
4. Cessna 340A
5. Beechcraft Baron 58P
6. Cessna 310 R
7. Cessna Golden Eagle 421 C
8. Cessna 310 B-Q
9. Cessna Chancellor 414A
10. Piper Seminole PA44 180

Turboprop

1. Pilatus PC-12/47E NG
2. Beechcraft King Air B200
3. Beechcraft King Air 350
4. Pilatus PC-12/45
5. Beechcraft King Air C90B
6. Cessna Caravan 208B
7. Beechcraft King Air 350i
8. Pilatus Pc-12/47
9. Socata TBM 850
10. Piper Meridian PA-46 500TP

Light Jet

1. Embraer Phenom 300
2. Cessna Citationjet CJ3+
3. Cessna Citation Mustang 510
4. Cessna Citationjet CJ3
5. Embraer Phenom 100
6. Cessna Citation M2 525
7. Cessna Citation V 560
8. Cessna Citationjet CJ4 525C
9. Learjet 45
10. Learjet 45XR

Medium Jet

1. Bombardier Challenger 300
2. Cessna Citation XLS +
3. Bombardier Challenger 605
4. Cessna Citation Sovereign 680
5. Hawker 800XP
6. Cessna Citation X 750
7. Gulfstream G200
8. Gulfstream G280
9. Bombardier Challenger 350
10. Cessna Citation Excel 560XL

Large Jet

1. Gulfstream G550
2. Falcon 7X
3. Bombardier Global 6000
4. Bombardier Global Express 5000
5. Bombardier Challenger 604
6. Gulfstream G450
7. Falcon 2000 (CLASSIC)
8. Gulfstream G650ER
9. Gulfstream G650
10. Gulfstream GIVSP 1159C

Helicopter

1. Robinson R44 RAVEN II
2. Bell 412EP
3. Bell 206B-3 JETRANGER III
4. Airbus EC135 P1 & P2
5. Robinson R66
6. Bell 407
7. Leonardo/Agusta AW139
8. Bell 407GX
9. Airbus EC145 & EC145T1 & H145
10. Bell 429 Globalranger