7 Pitfalls to Avoid When Buying a Pre-Owned Aircraft

Wednesday October 11, 2017 | 9:15 am - 10:00 am

Chad Anderson - Jetcraft
Johnny Foster - OGARAJETS
Brian Proctor – MENTE Group
Moderator: Keith Hayes – PNC Bank
Fake News

Fact Check > Fauxtography

**Plane Lands Safely After Losing a Wing?**

A video clip that shows an airplane making a safe landing after losing a wing was a promotional gimmick.

[https://www.youtube.com/watch?v=Z7ULyt20bkY](https://www.youtube.com/watch?v=Z7ULyt20bkY)
“Fake” News

Definition:

Fake news is a type of journalism or propaganda that consists of deliberate misinformation or hoaxes spread via traditional print and broadcast news media or online social media. Fake news is written and published with the intent to mislead in order to gain financially or politically, often with sensationalist, exaggerated, or patently false headlines that grab attention.
Pitfall #7

Fake Planning

- **Operations**
  - The first and most important step in acquiring an aircraft is determining the *right aircraft* for your *mission profile*
  - Most data sources do not provide *detailed trip planning* and *significantly underestimate operating costs*

- **Timing**
  - Many times, buyers are also sellers
  - Think though timing of the exit of the existing asset (Sale, trade, etc.)
  - Have you planned through a 1031LKE?
Pitfall #6

Fake Friends

• Use **extreme caution** when a friend **offers** to sell his or her aircraft to you
  – Treat the transaction like any **business transaction**
  – Always perform appropriate **due diligence**

• Just because you have a **pilot** friend, don’t rely on him/her to assist you in buying an aircraft
  – Some pilots are good at some the **technical aspects** of the transaction, but fail on the business aspects
  – Would you let a **doctor** build a **hospital** for you or a paralegal manage a complex legal negotiation and argument in a court of law?
Pitfall #5

Fake Profit

• You can not make money chartering

• NEVER!

• Many management companies will often present financial proformas that show a profit from chartering, but they cannot show all measures of the profit nor risks assumed to gain said profit

• If aircraft made money, everyone would own one
Pitfall #4

Fake Sellers

• Not all Sellers are who they say they are!
• Insure that all counterparties in a transaction have the wherewithal to perform
• Be cautious in back to back transactions
• Buyer beware …know who all parties in the chain of title are and be able to connect the dots at closing
Pitfall #3
Fake Pricing

• In all markets, there is a significant **bid-ask** spread
  – New and Preowned

• **Price reference guides** are 6-9 months **behind** the market

• Rely on a **broker/buyer’s agent** whom you’ve **engaged** to accurately identify pricing

• Recommend focusing on **value** rather than price

• Always ensure the value-add items on the **specification** are included in the purchase
Pitfall #2
Fake Maintenance

- **Always, Always, Always** do your own **pre-purchase inspection**!
- Be aware of **pending maintenance**
  - Ensure that you receive and review a **maintenance due list** for two years and 800 hours
- Before closing, ensure that **all programs** are in good standing, have positive balances, and are fully transferable
- **WARNING** – do not purchase if Seller will not allow or limits the scope of your inspection
Pitfall #1

Fake Brokers

• Build a **team** to support your acquisition

• A good team should consist of:
  – Reputable broker
  – Aviation legal counsel
  – Technical consultant
  – Finance advisor/banker
  – Flight operations team/Management Co.
  – Escrow agent
  – Accountant/Tax planner
  – Inspection facility
  – Completion consultant
  – Appraiser

• The aircraft brokerage space is currently **unregulated**, any broker who says he can do it all, cannot!
“Real” Market Data

Definition:

Data reflecting current trading information to include pricing and volume and other additional information related to the trade. Market data helps traders and investors learn as much as possible about daily trades. In finance, market data is associated with investment instruments.
Real Market Data

Business Aviation Transitioning into New Business Cycle

Source: Jetcraft 2017 Ten-Year Business Aviation Market Forecast
Evolution of the Current Business Aviation Fleet

Source: Jetcraft 2017 Ten-Year Business Aviation Market Forecast
Widebody Preference Drives Unit Prices/Revenues

Source: Jetcraft 2017 Ten-Year Business Aviation Market Forecast
Pre-Owned Inventory at Recovery-Like Levels, Residual Values Elusive

Source: Jetcraft 2017 Ten-Year Business Aviation Market Forecast
### Pace of Pre-Owned Market Predicted to Improve

**Source:** Jetcraft 2017 Ten-Year Business Aviation Market Forecast

<table>
<thead>
<tr>
<th>Source: AMSTAT</th>
<th><strong>AUG 2007 - JUL 2016</strong></th>
<th><strong>VS</strong></th>
<th><strong>2017 - 2026 (PROJECTED)</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>SMALL (M, L, S)</td>
<td><strong>9,014</strong> aircraft</td>
<td><strong>9,975</strong> aircraft</td>
<td><strong>1,357</strong> aircraft</td>
</tr>
<tr>
<td><strong>13.6%</strong></td>
<td><strong>2.985</strong> aircraft</td>
<td><strong>9.3%</strong></td>
<td><strong>4,383</strong> aircraft</td>
</tr>
<tr>
<td>MEDIUM (M, SM, L)</td>
<td><strong>6,720</strong> aircraft</td>
<td><strong>8,829</strong> aircraft</td>
<td><strong>1,210</strong> aircraft</td>
</tr>
<tr>
<td><strong>13.7%</strong></td>
<td><strong>279</strong> aircraft</td>
<td><strong>6.0%</strong></td>
<td><strong>408</strong> aircraft</td>
</tr>
<tr>
<td>LARGE (S, XL, CA)</td>
<td><strong>2,985</strong> aircraft</td>
<td><strong>9.3%</strong></td>
<td><strong>6.1%</strong></td>
</tr>
<tr>
<td><strong>10-year trailing average installed base</strong></td>
<td><strong>1,225</strong> aircraft</td>
<td><strong>1,357</strong> aircraft</td>
<td><strong>87</strong> transactions</td>
</tr>
<tr>
<td><strong>6.4%</strong></td>
<td><strong>279</strong> aircraft</td>
<td><strong>1,210</strong> aircraft</td>
<td><strong>73</strong> transactions</td>
</tr>
<tr>
<td><strong>10-year trailing average aircraft for sale</strong></td>
<td><strong>919</strong> aircraft</td>
<td><strong>408</strong> aircraft</td>
<td><strong>25</strong> transactions</td>
</tr>
<tr>
<td><strong>6.0%</strong></td>
<td><strong>17</strong> transactions</td>
<td><strong>87</strong> transactions</td>
<td></td>
</tr>
<tr>
<td><strong>10-year trailing average monthly retail-to-retail transactions</strong></td>
<td><strong>78</strong> transactions</td>
<td><strong>73</strong> transactions</td>
<td></td>
</tr>
<tr>
<td><strong>73</strong> transactions</td>
<td><strong>468</strong> days</td>
<td><strong>497</strong> days</td>
<td></td>
</tr>
<tr>
<td><strong>Nominal 10-year average absorption rate (days)</strong></td>
<td><strong>501</strong> days</td>
<td><strong>492</strong> days</td>
<td><strong>481</strong> days</td>
</tr>
</tbody>
</table>