

2010 Volume 3

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

Activity fluctuated so wildly in the first half of 2010 that some brokers questioned whether their phones were working. The summer slowdown is always hard to take, but even tougher now as we look for signs of recovery – or as some fear, a double dip.

The bursting of the housing bubble resulted in what nearly everyone agrees is the worst recession ever. Just how bad is it? **In the tables that follow we compare the recent collapse to the recession which followed the dot-com bubble and 911.** There is no way to tell where we are in the current cycle – middle or end of the recession, or beginning of the recovery.

Piston Singles and Twins - - A little background: By the beginning of 2001, the nearly decade-long ramp up of prices was over. Piston singles and twins were flat. The attacks of 911 seemed to start the piston prices on a steady downward trek. Even when the turbine markets shifted into full recovery mode in 2004, most piston airplanes just leveled out. Operating costs and shrinking demand kept values from becoming over inflated. Then, when the housing bubble burst in 2008, the drop in the piston segment was comparable or not much worse than the dot-com recession. Surprisingly, a few light aircraft are fairing better in the housing recession (so far), than they did in the dot-com recession.

Currently, piston singles and twins appear stable. The small up trend in prices seen in early 2010 has flattened, while buyers assimilate the higher prices and more importantly, the World situation. The Vref Light Single Index managed a 1% climb in the recent quarter. Complex Singles up 1.3%. Both twin indices crept up less than a percentage point.

Change in Value in Previous and Current Recession

	Dot-Com*	Housing		Dot-Com*	Housing
1990 A36 Bonanza	-9%	-10%	1990 Mooney M20M	-16%	-21%
1984 Cessna 172P	-20	-14	1984 Piper Archer	-6	-8
1984 Cessna 182	-9	-13	1990 Piper Arrow	-8	0
1984 Cessna 210	-9	-6	1990 Saratoga SP	-4	-11
	Dot-Com*	Housing		Dot-Com*	Housing
1982 B55 Baron	-14%	-16%	1981 Cessna 310R	-15%	-22%
1990 Beech 58 Baron	-16	-10	1982 Cessna 340A	-21	-4
1982 Beech Duke	-26	-17	1982 Cessna 421C	-18	-15

*Dot-Com Recession (Piston) 2001-2004



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Turboprops and Jets - - By checking the Market Indices at VrefOnline.com, one can see that turboprops and jets do really well in the good times, then come roaring down when the bubble bursts. Before the decade of the '90s ended, turboprop and jet prices flattened. And well before 911, they were clearly on their way down, leveling out at the end of 2003. We did not know what it was at the time, but the housing/sub-prime mortgage bubble was starting to form. Easy money flowed into the airplane market. It seemed that almost anyone could have a big house and an airplane to go with it. By the time 2007 rolled around, the large jet market was white hot! (My Golden Retriever was shopping for a G550 at the time. He wasn't worried about getting a loan to cover the 10 million dollar premium, but the deal fell through when he was told about the four-year wait. Big breed dogs don't live that long and you see he was already nine.) Yes, it was a crazy time.

Then, before the end of 2008, the granddaddy of all bubbles blew apart. Money quit flowing, and the overheated jet market came tumbling down. Backlogs quickly turned into whitetails, as premiums gave way to deep discounts. That brings us to present day – a market in which there is an overabundance of caution, and still very price driven.

All turbine segments continue to trend down. Turboprops are nearly flat, losing less than a percentage point. The Vref Light Jet Index lost 3.8% in the recent quarter. Mid-size jet prices were off an average of 4.1%, and Large Jets dropped 3.3%.

Change in Value in Previous and Current Recession

	Dot-Com**	Housing		Dot-Com**	Housing
1985 King Air C90A	-16%	-27%	1985 Ce Conquest II	-25%	-18%
1985 King Air B200	-28	-32	1980 Cheyenne II	-19	-24
1985 Ce Conquest I	-24	-22	1978 Twn Com 690B	-24	-26
	Dot-Com**	Housing		Dot-Com**	Housing
1991 Beechjet	-45%	-51%	2000 Falcon 2000	-22%	-47%
1993 CitationJet	-29	-36	2000 Falcon 900EX	-20	-35
1990 Citation II	-29	-37	2000 Gulfstream IVSP-30		-53
2000 Citation Excel	-17	-45	2005 Gulfstream 450		-40
2005 Challenger 300		-40	2005 Gulfstream 550		-32
2000 Challenger 604	-29	-47	2000 Hawker 800XP	-31	-48
2005 Global Express		-39	2000 Lear 45	-39	-42
2000 Falcon 50EX	-17	-46	2000 Lear 60	-32	-45

**Dot-Com Recession (Turbine Market) 2000-2003

The Fear Economy: This has to be the best of times to be a professional economist – lots of data, and lots of people desperately willing to pay for a forecast. The truth is, no matter how brilliant you are, a forecast is an educated guess at best. One of our favorite economists says that he correctly predicted five of the last three recessions.

Barring a widespread calamity, we fully expect demand to *slowly* improve for late model, no negative airplanes - of all sizes. However, some segments – older, out-of-production, hopelessly outdated airplanes - are bloated and may never recover. At least part of this is due to lending constraints for 20+ year-old airplanes. Challenger 601s, Cessna Citation IIIs, Lear 35s & 55s, Falcon 50s, GIIs, and Hawker 700s may be tough sells for a long time. These airplanes all represent great buys, and a lot of airplane for the money, but operating costs can be staggering. Their predecessors, Challenger 600s, Lear 24s & 25s, Falcon 10s & 20s, GIIs, Hawker 400s & 600s, are still mired in the dot-com recession.

There are many airplanes, over 20 years old, that are probably just too good to go away. Many piston singles, like older Beech Bonanzas, Cessna 210s, Mooney 201s, and Piper Cherokee 180s & Arrows, all most likely will have a bright future because they are cheap-to-own. Relatively speaking, so are older King Airs, Conquests, and Cheyennes. Also, Citation Is & IIs; they might be slow jets, but they are *real*, affordable jets.

For years we have espoused a bubble economy. Well, now we are thinking it is more a Fear Economy – fear of Obama bailouts, Obama double-dip . . . maybe it's fear of an Obama oil spill. Try this: Next time you are on the interstate (not Internet), look at the train tracks next to the highway. If it is like the train that runs along I-40, it is packed with containers going to or from you or me or China – it is stuff that someone is buying or selling. Then, look on the road. It seems there are more trucks than cars, which means they are also full of stuff we are selling to each other. Commerce is happening, just not fast enough to trickle up to aviation – yet. Probably the most important thing at this point is: Stay in touch with reality, whether it's politics or the airplane market. President Obama cannot help or hurt us anymore than say . . . a Mama Grizzly, but don't forget to vote. And finally, want to make the phone ring? Put a realistic asking price on your airplane.