MARKET DEPRECIATION VS. DECLINING RESIDUAL VALUES

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In 1999, a new Gulfstream GV sold for ~$39.5M. Considering a 'useful life' of 30 years and an average utility of 500 hours per year, a 1999 year model in 2014 (midlife/15 years) would be considered 'average' with ~7,500 hours total time. When we consider a 'normal' value retention of 20 percent of the original cost new, at the end of 30 years we would expect a market value of ~$7.4M and a midlife value of $22.1M. In fact, the midlife value today is closer to $15.2M. Will the market continue to hasten depreciation beyond what should reasonably be expected for a 30-year old aircraft? Are longer-range aircraft affected more than those in the small- and medium-jet categories? Do aircraft with higher production runs (350+) depreciate quicker?

Let's look at random selection of aircraft in the small- and medium-jet categories and examine value retention over six years. When we apply a 30-year age-based depreciation schedule to aircraft, the aircraft (over six years) should yield a market value of ~80 percent of its original cost new. As depicted in the chart, the values retained after six years are well below what a 'normal' market would deliver, in some cases dropping more than 60 percent.

2008 Year Model	Avg Cost New (USD)	Avg Sale Price - 2014	Percent Retained
Lear 40	9.2	3.1	34
Lear 45XR	11.8	4.9	42
Citation XLS	11.7	5.3	45
Citation XLS+	12	6	50
Lear 60XR	13.5	5.2	38
Gulfstream G150	14	6.3	45
Hawker 900XP	15	5.7	38
Citation Sovereign	17	8.1	48

Could this be indicative of the lower end of the business jet market depreciating quicker than those aircraft with greater capability (i.e., longer range, larger cabin)? Further consider that the price points of these aircraft are coming so close that decision making leans in favor of an aircraft with a stand-up cabin and greater range (aka 'getting the most value for the dollar'). By way of example, YTD 2014 the average selling price for a 2008 Lear 45XR is $4.9M and a 2008 Lear 60XR $5.2M. Perhaps the dynamic in passenger requirements is trending to greater range and capability for near the same dollar. At the end of the day, OEMs are building next generation aircraft that go further, fly faster and higher, have lower cabin pressure altitudes, extended design life and reasonable price points relative to the technology and capabilities, which will certainly change the market dynamics in the near term.