

Aircraft Market Insights for Lenders

Whitepaper by David Fisher

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Executive Summary

Business aircraft continue to perform as durable collateral—provided lenders underwrite beyond headline prices and into the operational realities that drive aviation asset values. This whitepaper distills current market behavior, appraisal fundamentals, underwriting best practices, and early-warning signals lenders can use to protect portfolios and identify opportunities. Key takeaways:

- **Value dispersion is widening** across segments and specific serial numbers as inventories normalize and cost of capital remains elevated.
 - **Maintenance condition and engine program coverage** remain the single largest value drivers outside of make/model and year of manufacture.
 - **Orderly Liquidation Value (OLV) vs. Market Value gaps** are material and model-dependent; lenders should price and covenant accordingly.
 - **Proactive collateral management** (maintenance reserves, inspection triggers, remarketing plans) materially improves recovery outcomes.
 - **Diminution:** Has the aircraft ever been damaged? Lost logs? Learn how this is valued.
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1) Market Overview & What It Means for Collateral

1.1 Supply, Demand & Pricing Patterns

- **Inventory:** After the post-pandemic supply squeeze, for-sale inventories have improved but remain uneven. Late-model midsize and large-cabin jets still see comparatively tight supply, while light jets and turboprops have shown more normalization.
- **Demand:** Corporate flight departments maintain consistent demand for reliable, younger aircraft; charter/fractional operators are disciplined buyers focused on dispatch reliability and maintenance economics.
- **Price Behavior:** Pandemic-era premiums have receded for many models, but well-equipped, low-time aircraft with complete records still transact quickly, especially where OEM slots are constrained.

Implication for lenders: Collateral selection and borrower profile matter more than ever. Underwrite to *serial-number specifics* and maintenance economics, not just blue-book indices.

1.2 Segment Snapshot

- **Large-Cabin Jets (Global/Challenger/Falcon/Gulfstream):** Strong global demand, deeper buyer pools, and better liquidity; higher absolute capital at risk.
 - **Super-Mid & Mid-Cabin:** Stable core of the market; more rate-sensitive buyers; value supported by mission flexibility and charter utility.
 - **Light Jets:** More supply elasticity; values depend heavily on engine programs and avionics relevance.
 - **Turboprops:** Utility-driven; excellent mission economics; pay attention to prop/engine overhaul status and operating environments.
 - **Pistons:** Smaller aircraft.
 - **Rotorcraft:** Sector-specific demand (EMS, offshore, utility); model- and mission-dependent liquidity; configuration and role equipment material to value.
 - **Drones and EVTOL (Electronic Vehicle Tak Off & Landing)**
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2) Valuation Fundamentals Lenders Should Require

2.1 Definitions & Use Cases

- **Fair Market Value (FMV):** Most probable price between willing buyer and seller under no compulsion and adequate marketing time.
- **Orderly Liquidation Value (OLV):** Likely price achieved under a compelled sale with reasonable exposure period; assumes a willing buyer and a seller under some constraint.
- **Forced Liquidation Value (FLV):** Auction-type scenario under severe time constraint; typically the lowest.
- **Lender guidance:** For underwriting and advance rates, use both FMV **and** OLV, with explicit assumptions stated (marketing period, inspection contingencies, AS-IS vs. AIRWORTHY).

2.2 Maintenance-Adjusted Valuation

Value swings from maintenance can exceed 10–20% of asset price. An appraisal should explicitly quantify:

- **Engine status & program coverage** (enrollment, coverage level, buy-in obligations, LLP status).
- **Upcoming major events** (C/D/8C checks; 96/144-month inspections; hot section/overhaul intervals).
- **Avionics** (WAAS/LPV, FANS/CPDLC, ADS-B, datalink, connectivity); obsolescence risk.
- **Damage history** (quality of repair, documentation, impact on insurers and buyer pool).
- **Configuration** (interior layout, galley/crew rest, medevac/VIP conversions, mission equipment).
- **Records completeness** (logbooks, back-to-birth traceability, Form 337s/STS, SB/AD compliance).

2.3 Serial-Number Specifics (SNS)

Even within the same make/model/year, SNS factors drive variance: prior charter vs. Part 91 usage, corrosion exposure, climate, storage habits, prior operational theaters (offshore/EMS), and quality of maintenance provider. Require the appraiser to itemize SNS adjustments. 3) Underwriting Playbook: Building Resilience into the Deal

3.1 Advance Rates & Tenors

- Calibrate to **OLV** stress with a realistic marketing period (e.g., 90–180 days) and **AS-IS** condition.
- Shorten tenors or add step-down covenants for models with above-trend depreciation or limited buyer pools.
- Consider **balloon structures** with periodic value tests for higher-risk models.

3.2 Maintenance Economics & Reserves

- For higher utilization profiles (charter/fractional/corporate shuttles), require **hourly maintenance reserves** (engines/APU/airframe).
- Specify **reserve accounts** or escrow mechanisms—with release tied to documented maintenance events and paid invoices.
- Enforce **minimum program coverage** (e.g., engine/APU tip-to-tail) for sensitive models; verify transferability and buy-in.

3.3 Covenants & Triggers

- **Usage covenants:** Max annual hours/cycles; mission restrictions (e.g., no HEMS/offshore without consent).
- **Condition covenants:** Prohibit deferred items beyond MEL; mandate AD/SB compliance.
- **Inspection triggers:** Independent condition survey at hour or calendar thresholds, or upon value trigger breach.
- **Insurance:** Named lender's loss payee; hull limits aligned with updated FMV; international operations endorsements.

3.4 Registries & Liens

- Validate **chain of title, international registry interests** (Cape Town, if applicable), and **properly perfected liens**.
- Confirm exportability and regulatory status (e.g., FAA/EASA/Transport Canada) including noise/emissions compliance.

4) Monitoring & Early-Warning Indicators

Quarterly/Annual Monitoring Package:

- **Hours/Cycles & Mission Profile** vs. underwritten plan.
- **Maintenance status:** Upcoming major events within 12–24 months; cost-to-complete estimate; program statements.
- **Avionics & Connectivity:** Obsolescence watchlist; planned upgrade budgets.
- **Records audit:** Any gaps, lost logs, missing traceability, or deferred ADs/SBs.
- **Market comps:** Time-on-market for same make/model; list-to-close spreads; price dispersion.
- **Macro overlays:** Fuel cost trends; interest rate changes; OEM slot availability; regulatory changes impacting noise/emissions.

Red Flags:

- Sudden increase in utilization without proportional reserve funding.
- Deferred inspections or parts shortages delaying return-to-service.
- Non-transferrable or lapsed engine/APU coverage.
- Unapproved modifications; unreported damage events (hidden damage).
- Abrupt changes in operator's revenue mix (charter exposure, sector concentration).
- Incomplete or missing logbooks.

5) Recovery, Remarketing & OLV Reality

5.1 Practical OLV Drivers

- **Marketing window & venue:** 90–180 days with competent broker vs. auction within 30–45 days.
- **Geography & currency:** Cross-border demand, currency strength, and import/export costs.
- **Maintenance & records:** Assets with fresh inspections and complete records sell faster and closer to FMV.
- **Configuration:** Neutral, business-friendly interiors widen the buyer pool; niche configurations narrow it.

5.2 Repossession Readiness

- Keep a **standing remarketing plan** (approved brokers, MROs for pre-buy corrections, ferry permits, storage arrangements).
- Maintain **records capture protocols** (secured digital backups, logbook custody procedures, STC/337 repositories).
- Pre-negotiate **program transfer** and **lien release** workflows to reduce downtime.

6) Model-Specific Depreciation & Holding Period Guidance

- **Large-Cabin:** Lower percentage depreciation but high dollar amounts; 5–7 year holds common for corporates; strong secondary markets.
- **Super-Mid/Mid:** Balanced; values sensitive to cabin tech and connectivity; 4–6 year holds typical.
- **Light Jets:** Faster tech turnover; value is engine-program dependent; 3–5 year holds.
- **Turboprops:** Durable demand, especially for utility and regional ops; maintenance scheduling is paramount.
- **Pipston Aircraft:** Smaller private aviation aircraft.
- **Rotorcraft:** Mission-specific; monitor sector health (EMS/offshore); configuration and remaining component life dictate outcomes.
- **Commercial Drones and EVTOL Aircraft**

7) ESG, Emissions & Regulatory Considerations

- **Noise & emissions:** ICAO/FAA/EASA standards can narrow eligible operational theaters; older models may face airport access constraints.
- **Sustainable Aviation Fuel (SAF)** readiness and **cabin connectivity energy loads** can influence operating costs and resale narratives.
- **Battery/avionics obsolescence cycles** are shortening; plan upgrade paths or factor obsolescence into covenants.

8) Lender Checklist (Condensed)

Pre-Close:

1. Independent, USPAP-compliant appraisal with FMV, OLV, and maintenance adjustments.
2. Engine/APU/airframe program verification: coverage, transfer, buy-in, currency.
3. Records audit: completeness, back-to-birth for LLPs, AD/SB compliance.
4. Title, liens, international registry, exportability/regulatory checks.
5. Insurance: hull/war liability limits; lender's loss payee.
6. Independent pre-buy findings reconciled and remedied or escrowed.

Covenants:

- Utilization caps; mission restrictions; inspection/reporting schedules.
- Reserve accounts; no deferred maintenance beyond MEL; AD/SB timelines.
- Value tests vs. OLV; inspection triggers; program continuity.

Monitoring:

- Quarterly utilization and maintenance statements; annual appraisals or desktop updates.
- Market comp tracking and price dispersion review.
- Early-warning red-flag dashboard.

9) Case Vignettes (Illustrative)

- **Midsize Jet with Partial Engine Coverage:** Borrower sought high advance rate. Underwriting required full buy-in to tip-to-tail coverage and a reserve escrow. Result: Higher marketability, narrower OLV gap, improved remarketing leverage.
- **Light Jet with Upcoming Overhauls:** Appraisal identified \$900k near-term maintenance. Structure: Reduced tenor, step-down LTV, and funded maintenance escrow. Outcome: Neutralized depreciation cliff, stabilized collateral.
- **Helicopter EMS Configuration:** Strong regional demand but specialized interior. Strategy: Two-track remarketing (EMS buyer pool + utility conversion pathway) and pre-arranged MRO slot. Outcome: Compressed days-to-sale despite niche spec.
- **Piston Aircraft:** Condition, upcoming maintenance and damage (if applicable).

10) Conclusions & Recommendations

- **Underwrite to maintenance economics and serial-number facts**, not just averages.
- **Price risk to OLV**, not FMV—then manage the gap with reserves, covenants, and periodic inspections.
- **Favor assets with wide buyer pools**, robust OEM support, and transferable engine/APU programs.
- **Stay proactive:** Monitoring and pre-planned recovery logistics can add 10–20 points of recovery in stressed scenarios.
- Western Aviation’s appraisal practice combines transaction-side insight with disciplined, maintenance-adjusted valuation to help lenders originate confidently and manage exposure throughout the asset’s life cycle.

Appendix A — Sample Covenant Language (Illustrative)

Maintenance Programs. Borrower shall maintain continuous enrollment of the Aircraft’s engines and APU in a manufacturer-approved, fully funded, transferable hourly maintenance program covering scheduled and unscheduled events and life-limited parts. Borrower shall not modify or terminate such programs without Lender’s prior written consent.

Utilization Limits. Annual utilization shall not exceed __ flight hours and __ cycles without Lender consent. Any exceedance triggers a mandatory condition survey within 30 days.

Inspection & Reporting. Borrower shall deliver quarterly statements of hours/cycles, maintenance status (including upcoming inspections within 24 months), and program account balances; and shall permit an independent inspection at Lender’s request upon a value trigger or covenant breach.

Value Maintenance. If the independent appraised OLV falls below ___% of the outstanding principal, Borrower shall cure within 60 days by principal prepayment, additional collateral, or other measures acceptable to Lender.

Appendix B — Appraisal Scope (Recommended)

1. Market study (inventory, absorption, days-on-market, price dispersion).
2. Comparable analysis with adjustments for serial-number specifics.
3. Maintenance-adjusted valuation (FMV, OLV, FLV) with explicit assumptions.
4. Forecast depreciation and sensitivity (rates, utilization).
5. Liquidity risk assessment and expected time-to-sale bands.
6. Records review summary and exception list.

About the Author

David Fisher is a Senior Aircraft Appraisal Specialist with **Western Aviation**, focusing on maintenance-adjusted valuations across business jets, turboprops, and rotorcraft. He advises lenders, lessors, and operators on underwriting, portfolio surveillance, and recovery strategy. David is Sr. Accredited Appraiser with the American Society of Appraisers (ASA). All of his appraisal reports are USPAP compliant.



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