

FLY BY



3 Minutes in the Private Jet Market

Factors Affecting Resale Prices • Large, Medium & Small
Cabin Market Summaries • Post-Brexit Private Aviation
Advice • What to Know About Aircraft Financing



Minutes saved per flight using Business Aviation rather than fastest commercial counterpart according to a recent EBAA Study.

10 | Honda Jets delivered in the first half of 2016.



Cubic feet of interior baggage compartment in the Embraer Legacy 600 & 650 - the largest in private jets.



Jets delivered by Gulfstream from January to June - their lowest first half deliveries since 2012.



Economic output of Business Aviation in Europe.

\$6,002,712

Decrease in the average asking price of the Gulfstream G550 since August 2015.



BREXIT & BUSINESS JETS

What's Happened Since the Vote

Without question, the United Kingdom's narrow decision on June 23 to leave the European Union will be one of the more significant election outcomes in decades. Since the referendum, our clients have asked us: How will this affect the private jet market? What does this mean for aircraft pricing? Do we need to change how we operate? Here is what we've seen so far:

With regards to the effect on aircraft transactions, we witnessed an initial shock reaction to the result but have since seen cooler heads prevail. Quite a few deals in various stages were cancelled immediately after the result was announced with buyers listing uncertainty as their cause. In the first week following the referendum, we had a few clients' other business transactions put on hold that resulted in their aircraft purchase being put off. Since those initial reactions, we have seen active trading resume. We have signed sale agreements and purchase mandates with three aircraft for European owners, a sign that the first fears of Brexit have abated. As a result, at this stage we do not see a lingering effect of the Brexit decision.

In terms of pricing, there has not been an increase in the rate of market depreciation since the referendum. Market values of most private jets have been rapidly decreasing in the last 18 months, a trend that has continued. However, the result of the UK referendum did not increase this already rapid rate of decline. As such, we do not see that the Brexit decision has had any additional impact upon aircraft values.

The operating question gets more complicated. The short answer is that it is too soon to tell any long term ramifications. But in the near term, operations of UK registered aircraft into the EU and EU registered aircraft into the UK should not be affected. The referendum was a non-binding vote that merely highlighted a narrow decision of voters. The UK is still a member of the EU until the 2 year window expires on Article 50, an Article which, as of this writing, will likely not be triggered until April 2017. Operations should continue as normal and under EASA regulations throughout the Article 50 period since the UK will still be a member of the EU. Keep in mind that current EU regulations are significantly changing the structure of operating a private jet and adding many layers of complexity to it. This is a result of regulations put in place long before the June 23 vote and not attributable to the vote to leave the EU in any way.

Overall, after the initial surprise of the result, we have not seen a big decline in business with European clients. Clients' businesses continue to operate and create wealth for them - the true driver of people's decision to buy and sell private jets. The long term ramifications, however, are anyone's guess.

Safe Travels.

Oliver Stone
Managing Director



PRE-OWNED PRIVATE JET SALES

May- August 2016

Total Transactions

HEAVY JETS

150 transactions

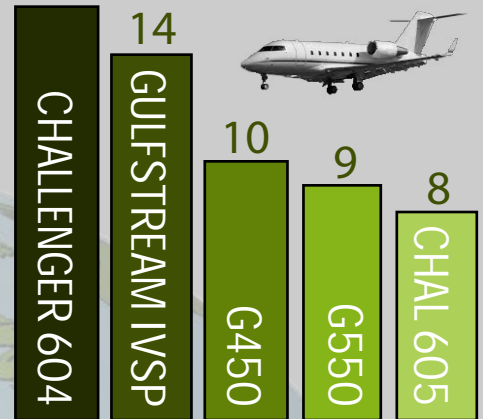
7% to Buyers in Europe

TOP BUYER'S COUNTRY

| | |
|------------|----|
| USA | 83 |
| Mexico | 6 |
| Canada | 5 |
| Tortola | 4 |
| San Marino | 3 |

July was the busiest month for heavy jet transactions in Europe with 5 jets bought and 10 sold.

16 TOP SELLERS



MEDIUM JETS

213 transactions

5% to Buyers in Europe

TOP BUYER'S COUNTRY

| | |
|-----------|-----|
| USA | 139 |
| Mexico | 12 |
| Canada | 7 |
| Venezuela | 5 |
| Argentina | 4 |

The European Medium Jet Fleet shrunk by 9 jets this period.

19 TOP SELLERS



LIGHTS JETS

246 transactions

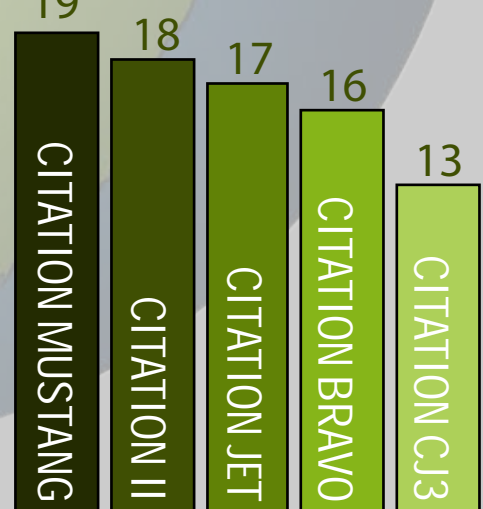
10% to Buyers in Europe

TOP BUYER'S COUNTRY

| | |
|-----------|-----|
| USA | 175 |
| Venezuela | 8 |
| Mexico | 8 |
| Brazil | 8 |
| Germany | 6 |

The Citation Mustang was the highest seller in Europe.

19 TOP SELLERS





How Financing Affects the Timing of Your Aircraft Transaction

It is common for aircraft buyers to seek out financing for their aircraft purchase. If you choose to go this route, the number one piece of advice we can give you is to *talk to your financier before you start your aircraft search*. They will want to do two things:

1. Ensure you are financially capable of repaying the loan. This credit process can take time so do this first. Timing will vary but is usually longer for new clients whom the financial institution is unfamiliar with.
2. Make sure they are happy with the aircraft you are interested in purchasing. In effect, your financier will actually be the buyer of your aircraft, so they will want to confirm the aircraft meets certain standards and criteria for them to lend against it.

Your bank will want to see the aircraft and this usually involves sending out a technical auditor to see the asset, review the records, and make sure it is in compliance with their internal standards. These reviews have become more detailed in the last 7 years. Pre-2007 saw lenders lending against assets they did not fully review nor complete due diligence on, causing significant financial consequences after the financial crash. Planning for these auditors to come see the aircraft takes time. They are hired and chosen by the bank and are usually from an outside company. This means you will have to work with their schedule as to when they can view the asset.

Your financier will also want to review the Purchase Agreement before you sign it to make sure they agree with it. They will want to run KYC checks on the parties involved in the contract. Furthermore, it is common to have to plan your closing call around your bank's availability.

All of these tasks can take weeks. With the contract, they usually send it to their counsel for their review which adds more time. We've seen KYC checks take two weeks and auditor reviews up to 4 days. How-

ever, each financial institution is different. Some are very fast in turnaround and will not require as much as others, but be aware that some can take weeks and require extensive involvement in the transaction process.

While the above is mainly targeted towards a buyer who is seeking lending, a seller who has a loan on their aircraft will also have certain considerations when they come to sell their aircraft. If you have a loan against your aircraft, your bank will usually choose to review your contract to ensure they are satisfied with what it contains and in what manner your closing procedures line out how the mortgage gets released. Each institution is different and some only release the mortgage when funds hit their account (which can add a level of complication) and some will release it on the word of the escrow agent. And here again, your bank will most likely want to run KYC on the buyer.

The bottom line is to bring in your lender as soon as possible if you are planning on getting financing and give everything an extra cushion of time. Your lender needs to be comfortable and aware of everything that is happening. The quicker they are brought in, the easier it can be for everyone.



The Devil Is In The Details

A key part of an aircraft transaction is the transfer of maintenance programs. This sounds very straightforward, and with engine and APU programs it often is. However, airframe maintenance and parts programs are often very complicated plans. The contracts for these are incredibly detailed, and these details will have an effect upon the cost to transfer the program and for you to comply with your sale agreement. There are also times when these programs do not transfer at all. Study your program closely so you can hopefully avoid any last minute surprises.

6 Factors That Can Affect Your Aircraft's Resale Value

Much has been discussed and written regarding falling aircraft prices as of late. Prices are going down and supply is increasing in most markets, but there are other factors at play that affect the value of your aircraft when you bring it to the market. Before you are surprised during price negotiations, consider the following aspects regarding your aircraft:

1. COSMETIC CONDITION

Probably the most obvious factor to influence an aircraft's value. To be blunt: nice interiors sell faster. They usually do not result in huge value increases, but they will significantly reduce the time to resell the plane. A first impression of an attractive, clean interior will draw in buyers faster than one that shows a lot of wear and tear. However, rarely will buyers pay over market value for an aircraft with a beautiful interior. They may pay a little more but not dollar for dollar on the cost of the interior - no matter how bespoke or costly. Nevertheless, if your aircraft really needs new paint or is in very poor interior condition, buyers will deduct the cost of the refurbishment off the transaction price. In a world of rapidly declining prices, having poor cosmetic condition will most likely result in longer resale time and a decline in market value as the market continues to depreciate. If your interior shows wear such as worn carpet, tired leather, cracked woodwork, stains on seats, or chipped paint, you may want to consider some refreshment to speed up your sale process. We do not recommend any major refurbishment as it is not cost effective, but small changes can greatly reduce your time on market.



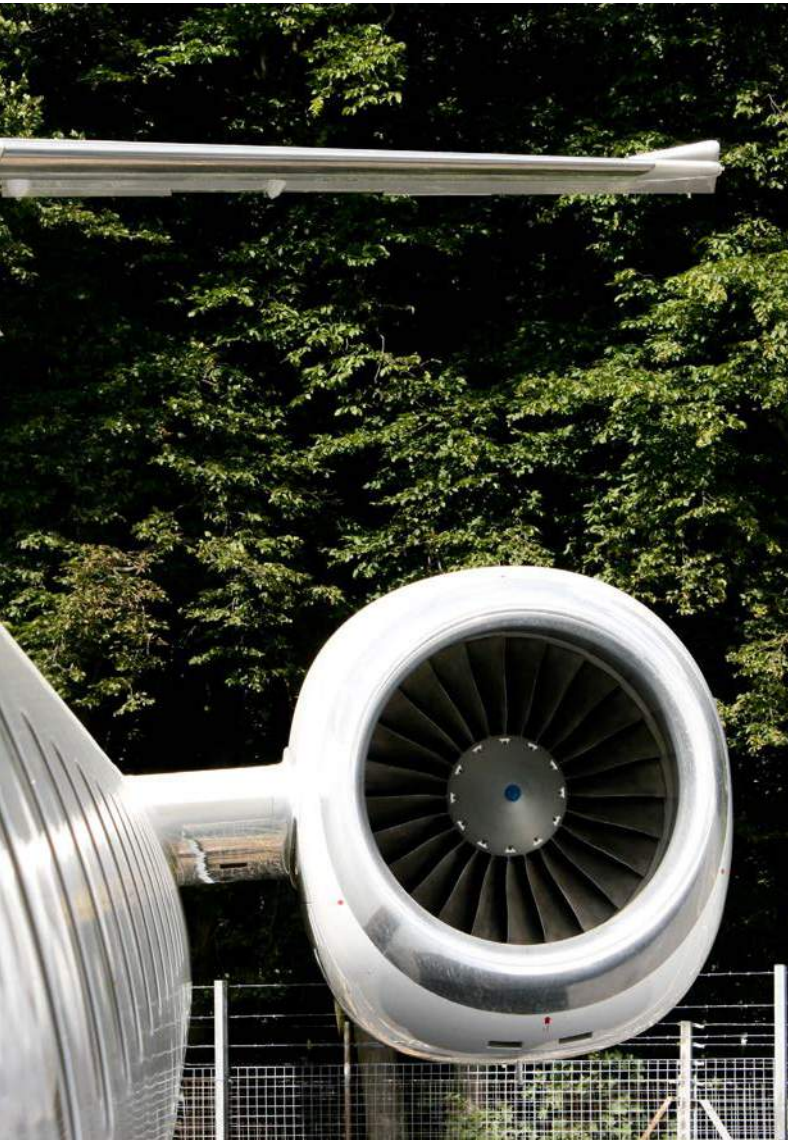
2. AVIONICS COMPLIANCE

This is becoming more relevant as the International Aviation Standards have passed a lot of new avionics mandates that will be required in the upcoming years. As examples, TCAS 7.1 which is already in effect in Europe, ADS-B Out which comes into effect in the USA and Europe in 2020, FANS 1A which comes into effect next year for aircraft crossing the North Atlantic, and CPDLC which will come into effect for Europe in 2020. These can cost anywhere from \$50,000 to \$1 million depending on the avionics. Many buyers are now starting to look for these upgrades to be already installed or completed as part of a transaction. Often the installation cost is discounted from the purchase price. Avionics compliance can be complicated and is specific to each aircraft type and certification. Gulfstream G550 buyers are looking for these upgrades and requiring their inclusion in transactions, whereas Citation Ultra buyers are less effected by them and are not mandating them in transactions. Your broker will know which of these avionics are affecting your aircraft and location. Realize which, if any, you are going to have to take into account for your transaction.



3. RECORDS

The least glamorous but most important determinant of resale value is the condition and organization of an aircraft's records. Records are logged statements of all maintenance performed, parts changed, inspections completed, and items installed and removed in the aircraft's lifetime. They are most often stored with your operator in Europe or with your pilot or mechanic in the United States. An aircraft's records have a big impact on an aircraft's ability to pass government audits. This is of particular importance during a transaction when it needs to switch country registers. It will have to go through a government audit which is contingent upon the records' condition and how easy it is to see that maintenance was performed in compliance with the new country's regulations (especially when it comes to modifications to the aircraft and parts installed). If a buyer believes they cannot import your aircraft into their country because of the records' failure to meet the audit, they will walk away. As a seller, you should have your broker or advisor audit your records before you put it on the market. Ensure they are detailed, complete and continuous. When you are missing large portions of the aircraft's records, buyers will negotiate significantly on price or walk away altogether.



4. MAINTENANCE PROGRAM

Engine programs are a great reatainer of value for a lot of aircraft. (Airframe programs are more complicated in many ways, including that they often do not transfer over to the new buyer, therefore they do not provide much value to an aircraft. Engine programs typically transfer over to new owners.) Inspections on engines are infrequent but very expensive. The program accrues a fund based upon usage which transfers to the buyer. As a result of this transfer, the buyer can use the program's fund on future inspections. For aircraft models that are typically enrolled on maintenance programs, not being enrolled on one is usually a dollar for dollar deduction of the cost to enrol the aircraft on the program. For example, the Challenger 300 series are typically enrolled on MSP. If one is not on the program, the cost of MSP enrolment will need to be deducted from the sale price to entice a buyer to consider it. However, if your model is not typically on an engine program and your aircraft is, you will not see a dollar for dollar increase in your price for the enrolment fee. For example, the Beechjet 400 series is not usually enrolled on engine programs. If yours is and you have paid in \$400,000, you will not see an increase in \$400,000 to your asking price. It will add some value but not the matched figure you have put in. The bottom line in regards to engine programs affecting resale value is that not being enrolled on a program for a model that is typically enrolled is what will hurt your value.

5. UPCOMING INSPECTIONS

A buyer will not want to purchase an aircraft that they will soon have to put into an inspection for a long period of time. These big inspections will have to be addressed in the transaction process. A “big inspection” is one that is time consuming and expensive. For example, the 96 or 192 Month Inspection on a Challenger series aircraft, the 8 or 12 Year Inspection on a Legacy, and the 96 Month Inspection on a Gulfstream. Most buyers know what big inspections are coming up on aircraft they are wanting. If one of these is due in (typically) less than one year, a buyer will want the cost of the inspection discounted from the price of the aircraft or they will require that the inspection be completed as part of the Pre-Purchase Inspection. The very biggest of these inspections (such as the 16 Year Inspection) is often discounted from the price when it is under 2 years out. When major inspections are coming due, buyers see a large bill and long down time on the aircraft in the near future and deduct these expenses from the price they are willing to pay. As a seller, if you have a big inspection coming due, know how much it costs and mentally factor it in for expectations on your sale.



6. HOURS AND AGE

Another obvious factor affecting value is aircraft hours and age. High time and older aircraft equal less value. In regards to aircraft hours, it is not a straight line depreciation. There is a subjective point that varies with each aircraft model where a certain amount of hours is exceeded and depreciation starts to rapidly increase. For example, if depreciation is around \$300 per hour on your aircraft, but then it hits a certain amount of time that pushes it into the very high time bracket, you could now see depreciation at \$600-\$800 per hour. Buyers are very reluctant to look at high time aircraft, mainly because there are so many aircraft on the market with low to mid-range hours. With high time, buyers will require a significant discount to consider the aircraft. You can still find buyers for them, but be prepared for a much lower market price and longer resale time. Older year models typically follow a more straight line depreciation model from the newer ones, making their impact on market value slightly different than the airframe hours.

Your broker is a trusted source to go to with your questions and concerns regarding your aircraft's sale and market presentation. Listen to them with an open mind about where your aircraft's strong and weak points lie to best position your jet on the market.

AIRCRAFT FOR SALE



2004 Bombardier Challenger 300

Serial Number 20015

Engines & APU on MSP

Fresh 48 Month Inspection

Asking Price: \$7,750,000 USD



1994 Cessna Citation VI

Serial Number 650-0240

Engines on MSP Gold

Seating for 7 Passengers

Asking Price: \$1,495,000 USD



2007 Embraer Legacy 600

Serial Number 14500986

Engines on Corporate Care

Options for USA Buyers Available

Asking Price: \$6,995,000 USD



2000 Bombardier Challenger 604

Serial Number 5475

Engines on GE OnPoint

APU on MSP Program

Asking Price: \$4,850,000 USD

AIRCRAFT FOR SALE



2008 Cessna Citation Mustang

Serial Number 510-0073

Engines on Power Advantage Plus
Airframe on ProParts & ProTech

Asking Price: \$1,695,000 USD



2006 Embraer Legacy 600

Serial Number 14500963

Engines on Corporate Care
WIFI Installed

Asking Price: \$6,900,000 USD



2007 Embraer Legacy 600

Serial Number 14501008

Engines on 100% JSSI

96 Month Inspection completed January 2016

Contact Us for Price Details



2011 Diamond DA 42NG

Several Aircraft Available

Low Time

In Very Good Condition

Contact us for Price Details



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