Someone once said that we are all ignorant – just in different subjects. As I sit back and think about an appraisal I performed for a customer of mine (the bank) and how the deal evolved, I believe that there are a few lessons here that all of us can learn from – regardless of how many aircraft deals we have been involved with. The facts in this article are real however the details will be changed for obvious reasons.

In this particular case, the buyer and seller both felt that they are very experienced in buying and selling aircraft but in examples such as this one, neither really takes all factors into consideration before completing the deal. The result can be costly for the buyer.

The Aircraft – As Advertised

The seller (we will call him “Mr. A”) faxed me a datasheet on the subject aircraft before I performed the physical examination. This aircraft was advertised as “No Damage History” with the interior and paint “New” in 2000. The avionics package was typical for this type of aircraft however many of the stated “features” identified on the sheet were standard on this particular model of aircraft (for example Long Range Fuel Tanks). At the bottom of the datasheet in small type is the standard disclaimer – “All Specifications Subject to Verification Upon Inspection”.

Another data sheet was provided by the bank highlighting the evaluation of this aircraft. This sheet was a printout from AOPA’s Aircraft Evaluation Service showing $ref’s evaluation at $133,000 with a base retail value (whatever the term “base retail value” means) of $107,000. The $107,000 seems to correspond with the average retail value (whatever the term “average retail” means) shown in the Aircraft Bluebook Price Digest for that year make and model. None of this information has any impact on the outcome of the NAAA Certified Appraisal Report but I mention them here as data points only. The reason that I question the terminology used by both products is that they don’t really make sense in today’s used aircraft market. Unless someone is buying a new aircraft from an authorized dealer who “floorplans” aircraft, the terms wholesale and retail don’t really apply. For pre-owned aircraft, the term of interest is “fair market value”. Once that figure is established, then other considerations such as commissions and fees can be negotiated.

The buyer (we will call him “Mr. B”) and the seller agreed on an initial selling price for this aircraft of about $124,000.
The Aircraft – As Appraised

When the physical examination was performed, the aircraft had a great appearance – both inside and out. I could understand why someone in the market for this type of aircraft would be drawn to it. The paint job looked professional and the interior was clean although the carpet showed some use – about two year’s worth. Although good, it certainly wasn’t in “new” condition. Overall, the ratings based on the physical examination (airframe, paint, interior, avionics, etc.) were fairly high. However, that is only HALF the story of this aircraft. The other half of the evaluation is the maintenance records. Here’s what was found – and certainly not disclosed on the datasheet.

This aircraft was missing both its first airframe and engine logbook. The airframe logbook indicated that the starting time (AFTT) was based on a statement from the owner at that time and it agreed with the tachometer in the aircraft. That figure may be accurate and correct – but then again, it may not be and here is where the value guides (both printed and on line) begin to fall short. Without maintenance records, approximately 20% of this aircraft’s life could not be accounted for. This means that the AFTT and damage history cannot be accurately determined and evaluated – even though there are no FAA or NTSB records indicating that this aircraft was involved in an accident or incident. Mr. A stated emphatically that all previous owners indicated that there were no previous incidents of damage and pointed to the lack of an FAA/NTSB records. He also stated that all rivets were original factory quality and there was no evidence of damage. Although these are nice statements to hear, there is really no way to independently verify the “No Damage History” claim without any maintenance records. In addition, anyone who has dealt with aircraft for any period of time can identify several scenarios wherein the aircraft is seriously damaged but there is no FAA or NTSB involvement or reporting. Prior to seeing the aircraft, Mr. A also told me that “only a few pages were missing from the logs and not a whole book” which of course was inaccurate. The fact still remains however that the market places a penalty on aircraft with missing logbooks. None of the value guides seems to address this and it certainly wasn’t fairly considered in the pricing.

Also found in one of the airframe logbooks was an entry several years ago that addressed a major corrosion event in one of the wings. Although the repairs appear to have been performed to spec and there is no further mention of corrosion issues, the market places a penalty on aircraft with a history of serious corrosion. Now I wonder if Mr. A divulged that fact to Mr. B or if Mr. B even examined the logbooks? I also wonder how the issue of corrosion would be addressed in the printed value guides since the airframe and paint are evaluated together? I also found it odd that only one wing would be impacted with corrosion and not the other – or any other part of the airframe. In my opinion the most likely scenario is that at some point in this aircraft’s past the original wing was damaged beyond repair and was replaced with another serviceable wing.
Other areas may have been impacted as well but without the log books this is impossible to determine.

Another point of contention was the final calculation of value. In round numbers, the aircraft appraised out at about $100,000 or about $20,000 shy of the negotiated price. Needless to say that Mr. A wanted to walk through the numbers and this is where our discussion began to get interesting. Mr. A did not feel that a deduction for lost logbooks was needed and that the “Green Value” (see my previous article on the importance of the Green Value) used in the calculations had no basis in reality. His calculations began with a $107,000 figure and began adding “extras” to arrive at his $120,000+ price – after all he had 15 years of experience evaluating aircraft and knew what he was doing. After he was finished, I had to remind him of a couple of crucial evaluation points. The first is that to calculate the aircraft properly, ALL factors need to be considered and not just the positives or extras. The second is that the Aircraft Bluebook Price Digest cannot be used to appraise a specific aircraft since it does not take all factors into consideration. In fact, the bottom of the inside cover states that the guide “is intended only as a guide and not to be considered to reflect all factors involved in the appraisal process of any particular aircraft.” As a result, a specific aircraft can be easily miscalculated. This particular aircraft was a great example of that exact situation.

Mr. A’s response? “Well, that statement in the book really doesn’t mean anything.” Now I would have to wonder how that argument would hold up if a customer made that same statement about his disclaimer at the bottom of his spec sheet. Yep, all he needed now was a seersucker suit and a big cigar to make the picture complete!

The customer agreed to pay quite a bit more than the $100,000 fair market value for this aircraft although there does not appear to be any reason to do so. It was apparent that he had not looked through the logbooks and had no real idea what this aircraft was worth – although it was obviously worth more than $100,000 to him.

The Lesson

When buying an aircraft – any aircraft, know what you are buying. Negotiate the purchase agreement so that you can back out if the pre-purchase inspection or Certified Appraisal Report do not agree with your expectations. When brokers and dealers start throwing around terms and numbers that you don’t understand or that don’t make sense, ask questions, get details and have someone independently confirm the mechanical condition and fair market value. Perform some of the research yourself to get a good idea of what you are buying. A seller’s worst nightmare is an informed and educated buyer.
Don’t take anyone’s statements or printed material at face value. After the deal is done, verbal agreements and statements are forgotten and the buyer is left holding the bag.

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