

Aircraft Valuation Calculating Diminution of Value

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In the course of my tenure in the aircraft appraisal business, I have often been tasked to make expert witness testimony in the area of diminution of value of aircraft. These cases involve aircraft that have been damaged, and for better or worse, have been placed back into service. The obvious question then becomes what they are worth at that point.

From these encounters, I have developed the following points to consider in calculating diminution of value:

Nature of the damage - Pressure vessel or wing tip? Most damaged parts on an aircraft can be replaced. Pressure vessels and basic airframes must be repaired. The impact on value is reflected accordingly, but not always proportionately. An FAA form 337 does not always tell the whole story. Sometimes it may not even be in the maintenance records if the repair shop considers the repair to be like new!

Extent of the damage - Percent of destruction to each part of the aircraft that has been repaired or replaced. Is the portion to be repaired so large that the value of the aircraft may be greater as scrap? Sometimes it is.

Time since damaged aircraft has waited for repair – Unrepaired aircraft sitting in the queue waiting for attention is a sad situation. Some aircraft can sit at the repair shop for months waiting for parts, technical repair drawings and the expertise to initiate the work.

Time in operation since repair - Damage is mitigated over time. The rationale is that if the damage occurred several years ago and was repaired without ongoing incident, so much the better. If documented trips back to the repair shop are noted, big problems exist with value.

Accumulation of Fixed Costs - Loan payments, insurance, hangar rent, pilot expenses and other fixed costs continue regardless of aircraft status.

Depreciation - Whether your accounting method is straight line or accumulated, the schedule will change so does the tax ramifications.

Litigation - Rare is the insurer that simply hands over the check for both the tangible and intangible expenses related to a damage incident. Costs for litigation can be in the hundreds of thousands of dollars. Good news is that insurance companies do not want that expense either.

Projected Market Situation - Even when the aircraft has been returned to service and has had several hundred hours in dutiful service, what is its worth to a potential buyer who can choose from many equivalent aircraft without damage history? It can be frustrating for the seller.

Commercial Use – Is the aircraft used in commercial operations? A Part 135 aircraft can generate a quantifiable amount of income. That income is absolutely lost while the aircraft is down. More insidious is quantifying the loss of market share that aircraft would have maintained had it remained in normal service.

Valuation Technique - A formal appraisal developed from a combination of detective work, reliable comparables and market review, maintenance records inspection, accounting review and finally a market analysis development.

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