

GUESSING AT YOUR PLANE'S VALUE?

It was September 11, 2004 and I was preparing dinner with the evening news in the background. It was not a night to go flying, as the remnants of Hurricane Ivan, which had wreaked such devastation on the gulf coast of Florida earlier that week, were making their way through Virginia. As a pilot, I am always interested in weather—and this storm had laid down a pattern of lightning bolts from Manassas (HEF) to Dulles (IDA), and from Leesburg (JYO) to Hagerstown (HGR). The news suddenly turned to live reporting of a hangar fire at Leesburg.

Guess Who Might Get Burned

As I looked at the television in disbelief, I saw flames leaping from the hangar where my Turbo Aztec was parked. Frantic phone calls to the airport confirmed my worst fears—it was indeed my hangar. The plane was a total loss, with one engine laying on the ground and the cockpit nothing but smoldering ashes. Of all the things that went through my mind that evening—concern for the firemen and workers trying to put out the blaze, wondering how many planes were in the hangar—the only consoling thought was that I knew my airplane was properly valued and insured.

It is not much comfort in the immediate aftermath of a loss (and yes, like every pilot I loved my airplane) to know that the airplane's monetary value will be preserved, but in the clearer air of the next day and subsequent months, it is a great relief. The loans I had secured using the airplane would be made whole and the additional value I had added to the airplane would be recovered. How did I know this? I had the airplane appraised and subsequently insured it for the accurate amount.

A Certified Aircraft Appraisal (CAA) can be the key to having a positive interaction with your insurance company when an unfortunate loss occurs. Only with a CAA in hand can you know the value of your aircraft and can be assured that your insurance company does also.

In this case, Avemco paid me in full, including my policy deductible for the airplane, within a single week. As an owner, having a CAA makes insuring the proper hull value much more sure.

While the old saying that "the cheapest thing you put in an airplane is gas" is absolutely true, the cost of a certified appraisal is very nominal when compared with the annual premiums aviators pay to insure their airplanes. Many singles can be appraised for about \$350 while small twins only cost \$600. Insurance is a bet against the odds, but as long as you are placing the bet, why not make it for the right amount?

My experience has shown that the relationship between the premium for hull coverage versus liability coverage is on the order of 2 or 3 to 1. That is, if the premium for your insurance is \$2,400, your liability is probably around \$800 and your hull coverage is around \$1,600. If you insure your aircraft to a lower hull value, the insurance premium you pay is lower. If you opt for a higher deductible, you can also lower the hull portion of your premium. Likewise a higher hull value results in a higher insurance premium. So what is the right value?

The right value is not necessarily the price for which you purchased your aircraft. A dealer marks up the value, so if you go back to your dealer to sell the same aircraft that you just purchased, you will get less. Advertised prices are



not where you find true value in aircraft. To purchase or sell an aircraft, you should always have a certified appraisal, unless of course you want to believe the value that a vested third party represents.

As a fellow pilot, I can tell you that I have never owned an "average" aircraft. My aircraft have always been "superior, custom, like new, no damage history." It is likely that your aircraft is the same. So why would you use a service to self value your aircraft that bases its calculations on average aircraft to determine a value for your aircraft? The answer is you wouldn't and shouldn't.

Some of the sources for self-aircraft valuation are wonderful tools for an aircraft buyer or seller. For a buyer, they let you establish a range of aircraft you can afford. If you have \$75,000 to spend, then use one of them to figure out which models of aircraft you can afford. If you are a seller, you can also see what a typical aircraft might sell for. However, these are not tools to determine the precise value of an individual aircraft.

These services calculate their values based on the original cost of an airplane and then adjust for the years since manufacturing. Since most of us buy 20 to 30 year-old aircraft, these sources don't really account accurately for the fact that, for example, the original avionics may not be present. The only true way to establish value is to build the value from the airframe up. Start with the naked airframe, add engines, add avionics, add interior and exterior features, and derive a value from the bottom up, rather than adjusting it from 1979 prices and dollars.

Damage is another parameter that is difficult to evaluate. In the 1980s and 1990s, many or most airplanes had No Damage History (NDH). Due to the aging of the fleet, today most airplanes come with some damage history. It's hard to imagine a 25-30 year-old aircraft having never sustained some damage. In appraising, it is not so much a question of the quality of the repair but rather the age of the damage. It is better to have a 1975 aircraft that was damaged in 1985 than a 1975 aircraft that was damaged in 2003. Why? Because the deduction for the

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damage diminishes over time. Another way to view the damage adjustments is that the confidence in the quality of the repair increases as the longevity of the repair increases. Who wants to be a test pilot against a new repair?

So at what value do you want to insure your aircraft if you don't have it appraised? If you insure it too high, you are paying more premium than you need to. In addition, the high insured value might force the insurance company to fix the aircraft when in fact you, the owner, would be better off if the insurance company totaled the aircraft. And while your bird is being fixed, you are without a plane to use.

If you insure your aircraft for too low a value, the insurance company has the option to total the aircraft and then recoup some of their loss from the salvage when the aircraft could have been reasonably repaired if it had been correctly insured. There is a "Constructive Total Loss" clause in all aircraft insurance policies. In Avemco's standard policy, it is set at 70%. Therefore, if you insure your \$75,000 aircraft for only \$50,000 (to save hull premium or because you don't really know your aircraft's true value) and you sustain damage in excess of \$35,000 (70%), your insurance company might total the airplane and pay you the \$50,000 insured value.

Pilots often ask me if they need an appraisal every year. Certainly not. However, there are events that should trigger an appraisal. The first is a major upgrade or replacement. Suppose you have an Aztec with a pair of 1900 hour engines and old avionics. You insure it for \$100,000. Then you replace the engines. At a minimum you should adjust your insurance hull value/insured value to reflect the new or rebuilt engines (probably over \$50,000). Suppose you put in \$40,000 in avionics. Do you directly

increase the value of the airplane by that amount? Unfortunately, you don't. Avionics, although ridiculously expensive, don't add 100% of their cost to the value. A substantial avionics upgrade triggers a requirement for an appraisal. Even without major change to the avionics, airframe or engines, I strongly recommend an appraisal at least every five years.

Certified Aircraft Appraisals require the appraiser to see the aircraft and examine the log books. I, for one, discount my fee if I am re-appraising an aircraft that I have seen in the past three or four years. Since I have notes and have already reviewed the logs, the incremental effort for a re-appraisal is less and hence my charges are less.

In summary, I advise pilots to set their hull value insurance based on a Certified Aircraft Appraisal and then update the appraisal and coverage when they make major changes to the airframe, engines, avionics or every five years. Over-insuring means that you pay more premium than you should, may get stuck with a bird that has massive repairs, was better off totaled, and left you without wings while it was being repaired. Under-insuring means that your repairable bird could be declared a total loss and you only get fraction of its real value. Either way, the cost of an appraisal is a small when compared with the risk of insuring for the wrong value.

About the Author:

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