727 conversion market revised downward

In the past year predictions of the number of 727s that will be converted to freighters has been revised down from 300 to as low as 50. The market has changed, with sudden indications that many freight carriers are preparing acquire larger types. The large operators FedEx and UPS will certainly not take any more 727s.

The 727-200 will continue to serve a niche in the overnight, small package freight market. The number of conversions that remain for the 727, however, are now being estimated down at anywhere between 50 and 125.

Because utilisations of aircraft on overnight operations only reach 4-5 flight hours per day and operate five days a week, acquisition and build costs of aircraft need to be capped at $5 million, and at an absolute maximum of $7 million. This leaves the 727 as the right aircraft for the market, despite its increasing maintenance costs.

The 727 freighter and conversion market has contracted in the past year, just at a time when there is a large supply of aircraft on the market.

Conversions of 727s are still being done by Stambaugh and Hamilton Aviation. Many traditional 727 lessors are now focussing on larger types.

Many major 727 operators have stopped acquiring aircraft for conversion, including FedEx and UPS, but also Emery and DHL, which are acquiring larger types, including the A300, A310 and 757.

This leaves only smaller players to take 727Fs. This includes carriers such as Kitty Hawk, Capital Cargo and Amerijet. These airlines will take 727-200Fs at the right lease rate, and it is now possible to build a 727F for $5-7 million.

Previous estimates of another 300 727 conversions have not only been downsized because of airlines that are planning to take larger types, but also because the 737-300 is now being considered for the 727-100F replacement. Values of used 737-300s are still a few million dollars too high, but once they have dropped to below $15 million they will become economically viable. It was previously anticipated that the 727-100F would be replaced by 727-200Fs.

The 727 conversion market faces further threats if large numbers of 727Fs get retired by a major carrier.

The limited number of freight conversion opportunities is being chased by up to 600 passenger aircraft. Delta is in the process of retiring 120 727-200s, which were bought by Republic. Only 20 were expected to be scrapped and the remainder converted. About 45 have already been parted out, while none have been converted.

The surplus of 727s means only aircraft in good engine, component and airframe maintenance condition will be picked. Many available aircraft have been retired by airlines that have swapped time-continued engines and components for expired ones. This makes many aircraft too expensive to convert and build serviceable as freighters.

The remaining 60 American aircraft are now being retired and cut for parts. This is creating a surplus of parts and engines. The baby JT8D overhaul and repair market is also suffering, with an estimated 300 engines being retired in 1999. Cheap parts and engines have the advantage of reducing freighter build cost.

Other lessors, such as Pegasus, are converting aircraft. These will be in good condition. Lessors' difficulty with obtaining financing is another factor.

Other issues affecting the 727 are a series of airworthiness directives (ADs) that had an impact on several freight modifications and the impending Stage 4 noise issue. The cost of building a freighter has to be considered against its remaining life.

High-quality conversions are those still in demand. Hamilton Aviation expects more orders for its AD free conversion, but acknowledges the downturn in 727 modifications. Hamilton Aviation executive vice president Clayton Hamilton estimates 125-150 727 conversions in the next three to four years, but concedes the 727F will be made obsolete not so much by age factors, but by changing fleet plans in favour of larger aircraft. AC

Market estimates of remaining 727 conversions have been revised down from more than 300 to 125-150 over the next three to four years. This is due to a combination of major freight carriers changing to larger types, a lack of good-quality aircraft and difficulty in obtaining financing.