# MD-80 market sees activity

**Despite a plethora of new airlines taking new 737NGs and A320s on lease, other small airlines are taking advantage of the MD-80's low lease rates, resulting in a high volume of transactions.**

Although demand during the downturn appears to be highest for younger generation aircraft, there has been a high volume of MD-80 trades during 2003. More than 84 aircraft were sold, leased or reactivated from storage in the nine months to 30th September.

The MD-80 is being phased-out by some of its 11 major operators, as the global fleet is fragmenting into smaller fleets. This is happening when there is a surplus of aircraft and a large number of 737-300s on the market.

The decline in MD-80 values has been steeper than for any other used type. Considering the 737-300's popularity, family appeal and younger technology, values of MD-80s are at rock bottom in the region of $1-2 million. Even younger and more capable MD-82s and -83s are at $2-3 million. Lease rates are down to $35,000-50,000, which compares to $80,000-90,000 for a 737-300.

This makes the MD-80 highly attractive in some markets, since most are less than 20 years old and Stage 3 compliant with a durable airframe. The aircraft has the lowest possible seat-mile cost of aircraft in its class. The MD-80 is therefore one of the more logical options for start-up and low cost airlines. The only issue for some might be the availability of adequate technical support in certain parts of the world.

The number of MD-80 transactions and type of airlines taking these aircraft indicates a buoyant market for at least some of the fleet. Transactions are for small numbers of aircraft.

Macedonian Airlines of Greece, for example, leased two aircraft from Safair. Lion Airlines of Indonesia leased six from GECAS.

The MD-80's low acquisition cost is allowing some start-ups to compete heavily against incumbent airlines; for example, Lion Airlines against Garuda.

The market has seen many other similar transactions. Midwest Airlines sold one to Wells Fargo bank and leased it back to Spirit Airlines. Spirit also acquired eight aircraft, including several on lease from Fleet Capital, Triton Aviation and Aerco, and bought another from National City Leasing.

Allegiant Air, of Fresno, California, which operates DC-9s and MD-87s, took three aircraft on lease from Wells Fargo.

Canadian start-up Jetsgo has acquired five aircraft on lease from Airplanes Ltd and Tokyo Leasing.

Small carriers are not the only ones active in MD-80s. Continental leased two and American reactivated four from storage.

Aeromexico took four aircraft on lease from Pegasus Capital, Air Trade Capital and the SAirGroup. Allegro Air, Mexico leased two from Pegasus. Also in the same region, West Caribbean Airways leased two from Finova in March.

Market activity in Europe is similar to North America, with a mixture of major carriers and small airlines taking aircraft.

The largest volume is accounted for by SAS, which has reactivated four stored aircraft and taken two aircraft back off lease from Spanair.

Other European transactions included MD Airlines of Iceland leasing one from debis Airfinance, Air Adriatic leasing one from Elmo Aviation, Nordic Airlines of Sweden taking three from debis and Swiss Airlines, and Viking Airlines of Sweden taking two from GECAS.

Other transactions have been for single aircraft to Alisea Airlines, Luxor Air, Khors Aircompany, Myanmar Airways and Nouvelair Tunisie.

The used MD-80 market is not always a clear winner in some markets. For example, Jetran could not get the aircraft certificated in eastern Europe.

## MacQuarie Aviation

Australian investment bank MacQuarie Bank has launched a new subsidiary, MacQuarie Aviation Capital Finance Ltd, to lease jetliner engines. The new engine lessor has entered the market with its first transaction, a sale and leaseback of two CF6-80C2B1Fs. The engines will be leased for 55 months to Asiana, South Korea. The engines were bought by MacQuarie subject to lease.

MacQuarie Aviation Capital Finance Ltd will be based in Dublin, Ireland and has committed internal funding that will allow it to borrow at competitive rates.

Andrew Pearce, technical director at MacQuarie Aviation Capital explains the company is targeting itself as an engine lessor, providing spare engines on lease on medium- and long-term contracts.

MacQuarie Aviation Capital is targeting a portfolio growth to 100-125 engines in three to five years, with a targeted expansion rate of 20-25 engines each year. This will make it a major competitor of the two major lessors in the market: Engine Lease Finance and Willis Lease Finance Corporation. If this portfolio is achieved it will make MacQuarie one of the larger engine lessors in the market.

"Our objective is to build a high-quality portfolio of in-production engines, focusing on the CFM56 series, V.2500, PW4000 and CF6-80C2," explains Pearce. "We will also consider the main regional jet engines; the CF34 and AE3007. We are also interested in the GE90 and Trent series at a later stage, but not older generation engines."

MacQuarie expects to acquire its portfolio mainly through sale & leaseback transactions. Although MacQuarie Aviation Capital is a new entity, MacQuarie Bank already has a long-term commitment to aviation, and is one of the largest arrangers of cross-border financing.

Pearce is aware of the specialised nature of engine leasing and appreciates the need for a combination of technical and financial expertise.

"Lessees will be responsible for the maintenance, insurance and return conditions of engines, although we will have an initial technical staff of two in the Asia Pacific region. These are ex-airline and ex-engine lessor staff. We will also have a staff of two in Europe, based in Dublin," says Pearce.

Although there are only two major engine lessors with large portfolios of engines available for medium- and long-term leases, Pearce estimates there is large scope for more engine lessors with a global fleet of about 5,000 spare engines and a probability that this will almost double as the global fleet grows over the next 10 years. AC