# 737-300/-400/-500 values, lease rates & the aftermarket

## Values of 737-300/-400/-500s have rebounded following a surge in demand.

The 737-300/-400/-500 are too technologically advanced to enter a state of decline. The aircraft are simple to operate and have been used by the majority of airlines around the world. There is also the fact that there are more than 1,000 MD-80s in service that will decline prior to the 737, as well as the overriding factor that there are few good quality aircraft in storage.

The age of the 737-300/-400/-500 fleet ranges between six and 20 years. The majority of aircraft would thus be considered to be at a 'mature' age. The median age of the fleet and their accumulated flight hours and flight cycles, and the presence of the more advanced 737NG and A320 families, has put pressure on the market values of 737-300/-400/-500s. Most aircraft have entered the phase where values have begun to decline more rapidly.

Values of 737-300/-400/-500s dropped after 9/11 with the ensuing glut of aircraft. "While the values of older aircraft types have dropped through the floor, values of good quality 737 classics have gone up by 30-40% since the post-9/11 trough," says Doug Jaffe, chief executive officer at Jetran International. There was a surplus of 737-300/-400s after 9/11, mainly because a large number of ex-United and ex-USAirways aircraft were parked.

"The supply of 737-300/-400/-500s is now tight. This is because airlines are swapping out older aircraft, like the 737-200 and MD-80, for younger types. This process has been intensified because of the rise in fuel prices. The price of fuel has driven 737-300/-400/-500 values up because they are the most fuel efficient of older generation aircraft," continues Jaffe. "The 737-300/-400/-500 is also much easier to trade worldwide than some types. It is hard to get an air operator's certificate (AOC) for the MD-80 in Romania, for example. There are still problems when trading 737-300/-400/-500s across continents, however. Some avionics are mandatory in Europe, but not in the US. This can result in some expensive modifications being required."

Jaffe makes the point that if a major operator, for example USAirways, were to cease operations or merge with another carrier, it might release 40-50 aircraft onto the market. "It would still not be too difficult to place these aircraft with airlines, given the demand for them, although it would pull values down again," he comments.

The problem with 737-300/-400/-500 values is that the CFM56-3 is an expensive engine to overhaul. "This is mainly because of the price of parts. An overhaul can go to as high as $1.5 million, which compares to about $1.0 million for a JT8D. The maintenance status of the engines therefore has the most influence over values of 737-300/-400/-500s. Older -300s, which are mid-life in maintenance terms, have values of about $7 million, while younger aircraft built between 1990 and 1999 have values in the $9-11 million range," says Jaffe. This compares to engine values, which are $3-4 million each, depending on maintenance status and lives of life limited parts. Engines can thus account for up to 90% of an older aircraft's value, and up to 80% of a mid-life aircraft's.

"Values of -400s are not much higher, with older aircraft being in the $7-8.5 million range and mid-age aircraft being $9-12 million," continues Jaffe. "The -500s are not that popular, but values are nevertheless close to the -300/-400 at $8-10 million. Lease rates are also close for the three variants, and are $85,000-105,000 per month for earlier build aircraft and $110,000-140,000 for younger aircraft."

While the supply of aircraft has been soaked up, values have not increased as much as lease rates. There are few cash buyers of aircraft, and most airlines prefer to lease when liquidity is low.

The 737-300/-400/-500 benefits from the fact that the CFM-56s have predictable on-wing intervals, and although they are expensive to maintain they make the aircraft's overall maintenance costs stable.

The rise in values will cause uncertainty in the freight conversion market. The accepted market lease rate for a 737-300SF is in the region of $100,000-110,000, and a lease rate factor of 1.25% puts the total cost for acquisition and conversion to freighter at no more than $9 million. "This means the market for an aircraft can be no more than about $6 million for someone buying a used machine and speculatively converting it," says Jaffe. "A lessor that has fully or nearly depreciated its aircraft can justify conversion, however." AC


*Demand for 737-300/-400/-500s has lifted market values by as much as 40%. Supply of aircraft is now tight and values are in the region of $7-11 million, depending on age, variant and maintenance status.*